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CANADIAN PACIFIC LIMITED

1996 ANNUAL REPORT

CANADIAN PACIFIC RAILWAY • CP SHIPS • PANCANADIAN PETROLEUM • FORDING • CANADIAN PACIFIC HOTELS

1997 ANNUAL MEETING

The Annual Meeting of Shareholders will be held on Tuesday, May 6, 1997, at The Palliser Hotel, 9th Avenue and 1st Street S.W., Calgary, Alberta, Canada, at 11:00 a.m., Calgary time.

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HIGHLIGHTS

(dollars in millions, except amounts per share)

INCOME ITEMS	1996	1995	1994
Revenues from continuing operations	$ 8,684.0	$ 7,550.5	$ 6,592.9
Operating income (loss)			
CP Railway	$ 530.8	$ (760.7)	$ 305.7
CP Ships	110.9	76.9	86.0
PanCanadian	474.8	344.4	407.1
Fording	162.5	138.5	98.7
CP Hotels & Resorts	115.8	96.9	72.7
	$ 1,394.8	$ (104.0)	$ 970.2
Income (loss) from continuing operations	$ 834.1	$ (265.4)	$ 464.9
Net income (loss)	$ 829.1	$ (823.5)	$ 393.1

PER COMMON SHARE			
Income (loss) from continuing operations	$ 2.42	$ (0.78)	$ 1.38
Net income (loss)	$ 2.41	$ (2.41)	$ 1.16
Dividends	$ 0.48	$ 0.36	$ 0.32
Market price at year end (Toronto Stock Exchange)	$ 36.05	$ 24.88	$ 20.88

RATES OF RETURN			
Average shareholders' equity	13.5%	(13.0)%	6.1%
Average capital employed (operating)	11.8%	(0.8)%	7.6%

FINANCIAL CONDITION			
Cash flow	$ 1,879.4	$ 1,509.9	$ 1,393.9
Capital expenditures	$ 1,530.6	$ 1,822.9	$ 1,280.1
Cash on hand	$ 852.6	$ 1,014.6	$ 1,239.9
Total long term debt	$ 3,441.8	$ 5,096.4	$ 5,078.3
Net debt	$ 2,589.2	$ 4,081.8	$ 3,838.4
Shareholders' equity	$ 6,404.6	$ 5,846.7	$ 6,814.3
Total assets	$ 15,215.9	$ 16,037.9	$ 16,912.3
Net debt:equity ratio	28:72	40:60	35:65

COMMON SHARE CAPITAL			
Average number of shares outstanding (in millions)	344.4	342.1	337.5
Number of shareholders at year end	38,525	41,687	45,254

NUMBER OF EMPLOYEES			
Average for the year	34,200	36,100	36,200

TO THE SHAREHOLDERS

David P. O'Brien
Chairman, President
and Chief Executive Officer

"When I look at Canadian Pacific today I see everything moving in the right direction... Our challenge is to build on the momentum and the profitable growth we achieved in 1996. I believe that we are well positioned to make further progress in 1997 and beyond."

Canadian Pacific made a fresh start in 1996 and achieved significant progress in all its businesses.

We completed an ambitious corporate restructuring program that simplified our capital structure, narrowed our business focus and positioned us for more profitable growth in the future.

A new Canadian Pacific Limited, with just one class of shares, was created to be the parent company of the Canadian Pacific group. Holders of Ordinary and Preference shares became holders of new CPL Common shares as did those holders of 4% Consolidated Debenture Stock who elected to exchange their stock.

Our railway was reorganized to be a separate subsidiary, the Canadian Pacific Railway Company, rather than a division of the parent company. The railway's eastern assets were transferred to the St. Lawrence & Hudson Railway Company Limited, a newly-created subsidiary of the CPR, with a mandate to transform the eastern railway into a more efficient, low-cost operation.

During the year the railway successfully implemented an extensive management reorganization and downsizing and completed one of the biggest corporate relocations in Canadian history. The administrative workforce was reduced by more than 25% and more than 1,000 employees from various locations in Canada and the United States moved to new headquarters in Calgary.

A new Canada Transportation Act came into effect in July and gave Canada's railways more freedom to rationalize lines. Our railway responded with an aggressive program to rationalize some 4,400 miles, or 25%, of its track over three years. Rapid progress was made and, by year-end, the railway had negotiated, or was in the process of negotiating, the sale, lease, discontinuance or shortlining of approximately 2,700 miles of line.

SALE OF REAL ESTATE ASSETS STRENGTHENS BALANCE SHEET

During the year, we sold our Marathon real estate income portfolio and reduced net debt by $1.5 billion. This was one of our top priorities in 1996 and we exceeded our own objectives by selling more assets than planned in a shorter period of time. We have retained two large development sites in Vancouver and Toronto and other smaller holdings in Canada and the U.S.

In August we established a share repurchase program under which we can purchase for cancellation up to 10 million Common shares by August 18, 1997. Purchases under the program began near year-end.

Our investment in Laidlaw is another exciting part of our story. In December, Laidlaw completed the sale of its solid waste management division. Early in 1997, it announced transactions designed to restructure its hazardous waste business and increase its focus on its transportation business, particularly the high-growth health care segment.

One disappointment during the year was the decision by the Canadian Bureau of Competition Policy to seek an order from the Competition Tribunal requiring us to divest ourselves of Cast, which we acquired in March 1995. We intend to oppose this action vigorously. We are confident that the Competition Tribunal will reach the same conclusion the National Transportation Agency reached in January, 1995 when it ruled that the acquisition did not raise competition concerns, that it was important to protect and strengthen the continued health of the Port of Montreal and the Montreal economy, and that shippers would not suffer.

BROADLY-BASED IMPROVEMENT IN FINANCIAL PERFORMANCE

We had excellent financial results in 1996.

Net income was $829 million, or $2.41 per Common share, compared with a net loss of $824 million, or $2.41 per share, in 1995 when there were a number of special charges and losses from discontinued businesses.

Operating income before unusual items increased 34% to $1,395 million. CP Ships, PanCanadian Petroleum, Fording and Canadian Pacific Hotels had record operating incomes. Canadian Pacific Railway's financial performance, achieved during a period of unprecedented internal change, was particularly satisfying. The railway exceeded expectations by increasing operating income before unusual items by 39%, and lowering its operating ratio from 89.9% to 85.9%.

Cash flow increased 24% to $1.9 billion while additions to properties amounted to $1.5 billion. Net debt at year-end was down $1.5 billion. As a percentage of capitalization, it decreased from 40% to 28%, its lowest level in years.

Our shareholders benefited from a 45% increase in our share price during 1996.

CLEARLY-DEFINED GOALS WILL SHAPE OUR FUTURE

We have set clear and attainable goals for ourselves.

One is to build on the successes we had in 1996 in narrowing our business focus and becoming more of an operating company.

A second is to make our earnings and cash flow more predictable and less cyclical. We have already removed a great deal of cyclicality from our group of businesses and put major asset writedowns behind us.

A third is to grow our core businesses internally and through selective acquisitions. The fundamentals for all our businesses are good and we have the financial strength to take advantage of opportunities as they arise.

A fourth is to allocate resources to produce maximum value for our shareholders. We expect to generate substantial cash flow over the next few years. Our challenge will be to use this cash as productively as possible, in our core businesses, to repurchase shares and to maintain an appropriate level of dividends for a growth company.

FURTHER EXPANSION PLANNED FOR 1997

PanCanadian has a $1 billion capital program in 1997 focused primarily on the western Canadian sedimentary basin where it still has significant growth opportunities. It is also looking beyond Western Canada at oil and gas opportunities on Canada's east coast and internationally.

Fording will continue to expand its export coal volumes in 1997 and broaden its market coverage and product base. Almost half of its 1997 capital spending will be devoted to its new wollastonite mine in Mexico. This will be the largest wollastonite mine in the world. Production is scheduled to start by year-end.

Canadian Pacific Railway will continue to focus on its cost-based turnaround with the aim of becoming the low-cost provider of transportation services in its core market area. We believe that a competitive cost structure and improved customer service will enable us to compete for a growing segment of traffic in the years ahead.

CP Ships has developed a cost- and service-effective transportation system that has enabled it to become the largest and lowest cost carrier of containers on the North Atlantic. It will continue to invest in new containers, terminal equipment and information systems and has ordered two new ships for delivery in 1998. CP Ships is also pursuing a number of possible acquisition opportunities.

Canadian Pacific Hotels will continue to build on its exceptional asset base and develop the full potential of its properties. It will complete a $45 million expansion project at Chateau Whistler and undertake a number of other expansion projects.

STRONG ASSETS PROVIDE BASE FOR PROFITABLE GROWTH

When I look at Canadian Pacific today I see everything moving in the right direction. This is not always the case when you have different kinds of businesses susceptible to different business cycles and market forces. Our challenge is to build on the momentum and the profitable growth we achieved in 1996. I believe that we are well positioned to make further progress in 1997 and beyond.

We have powerful natural franchises in our western bulk railway, PanCanadian's land position in Western Canada, and our heritage hotel sites. Overall, we have an unusually strong collection of assets that will provide the basis for growing earnings and cash flow in the years ahead.

We performed well in 1996 but we have a lot of work ahead of us. There are opportunities for considerable improvement in all our businesses in 1997. The railway should continue to benefit from its cost-based turnaround as well as recent initiatives to rationalize its plant and improve the cost structure of the St. Lawrence & Hudson. PanCanadian expects continuing production growth in its western Canadian oil and gas operations. CP Ships and Fording are forecasting increased volumes and Canadian Pacific Hotels, as market leader, expects that strong growth in tourism will produce better results.

Any company is only as good as its people and we are very fortunate in this regard. Over the last two years we have strengthened the management teams at Canadian Pacific and each of our operating subsidiaries. In the end, people make it happen and we have committed people at all levels throughout our organization. We thank them for their contributions to our success in 1996 and their continuing commitment as we move forward in 1997.

Bill Stinson retired last May after 10 years as chief executive officer of Canadian Pacific. During his tenure, he subjected the company to a rigorous reality check and then guided it through a restructuring program unique in its history. He committed himself to making each of our core businesses stronger, more competitive leaders in their industries. Bill will continue to serve on the Board of Directors.

Bill Mulholland, who has been a director since 1983, will retire from the board at the annual meeting. He has served with distinction on various board committees and, with his keen intellect and astute business sense, he has made a significant contribution to the affairs of the company.

David P. O'Brien

Chairman, President
and Chief Executive Officer

February 10, 1997

Canadian Pacific has one of the most productive and competitive groups of businesses in Canada. Each of its subsidiaries – Canadian Pacific Railway, CP Ships, PanCanadian Petroleum, Fording and Canadian Pacific Hotels – is a leader in its industry and is making a significant contribution to the country's ability to compete in today's integrated world markets.

CORPORATE PROFILE

CANADIAN PACIFIC RAILWAY

Canadian Pacific Railway provides rail and intermodal freight transportation to most principal centres in Canada as well as to the midwestern and northeastern U.S. Chief sources of revenue are from the movement of grain, coal, forest products, fertilizers, other resource products, trailers, containers and automotive products.

CP SHIPS

CP Ships is the largest carrier of containers and the lowest cost operator on the North Atlantic. Its operating companies, Canada Maritime and Cast, provide weekly services between North America and Northern and Mediterranean Europe on five separate routes, each with its own dedicated ships. CP Ships' intermodal service linking Europe with key markets across North America through the Port of Montreal gives it a distinct competitive advantage. CP Ships also operates two marine terminals at the Port of Montreal which are linked with the Canadian Pacific Railway system.

PANCANADIAN PETROLEUM

PanCanadian is the second largest producer of conventional crude oil and natural gas in Canada. It is engaged in the exploration for and the development, production and marketing of crude oil, natural gas and natural gas liquids, primarily in Western Canada where it has 9.0 million net acres of land. PanCanadian is also active in exploration and production in Eastern Canada and internationally. It has growing interests in the natural gas liquids marketing infrastructure in Canada and the United States.

FORDING

Fording is Canada's largest and most diversified metallurgical coal exporter and one of the world's most efficient producers. It mines and processes metallurgical and thermal coal in British Columbia and Alberta. Markets include blast furnace steel producers, electrical utilities and other coal consumers world-wide. Fording also provides contract mining services and its U.S.-based subsidiary, NYCO Minerals, mines and processes wollastonite and tripoli for markets in North America and abroad. NYCO is the world's largest producer of wollastonite, which is used in plastics, abrasives, adhesives, ceramics and building materials.

CANADIAN PACIFIC HOTELS

Canadian Pacific Hotels is Canada's largest hotel chain. It owns, leases or manages hotels, many of which are heritage properties, in 15 city and 11 resort locations across Canada. Of these hotels, 13 are located in Western Canada, four in Ontario, four in Quebec and five in Atlantic Canada.

	1996	1995	1994
Revenues (millions)	$ 3,772.1	$ 3,779.4	$ 3,693.8
Operating income (millions)	$ 530.8	$ 382.3*	$ 305.7
Net income (millions)	$ 405.4	$ 111.7*	$ 64.3
Cash flow (millions)	$ 564.2	$ 426.8	$ 370.7
Revenue ton miles (billions)	103.4	107.0	102.3
Trackage (miles)	17,400	18,100	18,700
Locomotives	1,615	1,665	1,631
Freight cars	54,000	49,400	48,800
Active employees	21,700	23,400**	23,900**

*excludes restructuring charges
**impact of strikes removed

	1996	1995	1994
Revenues (millions)	$ 1,113.8	$ 947.9	$ 565.3
Operating income (millions)	$ 110.9	$ 76.9	$ 86.0
Net income (millions)	$ 103.5	$ 71.1	$ 82.3
Cash flow (millions)	$ 134.8	$ 98.5	$ 100.7
Container ships*	19(14)	21(14)	14(9)
Container carryings**	480	399	244
Employees	1,300	1,400	600

*total in service with partners (CP Ships contribution)
**thousand twenty-foot equivalent container units

	1996	1995	1994
Revenues (millions)	$ 2,744.2	$ 1,857.6	$ 1,478.2
Operating income (millions)	$ 474.8	$ 344.4	$ 407.1
Net income (millions)	$ 285.6	$ 184.5	$ 234.7
Cash flow (millions)	$ 1,000.8	$ 804.9	$ 763.4
Wells drilled*	1,221	1,153	1,129
Total reserves conventional oil & natural gas liquids**	422	378	329
Total reserves of natural gas**	341	330	317
Employees	1,700	1,700	1,600

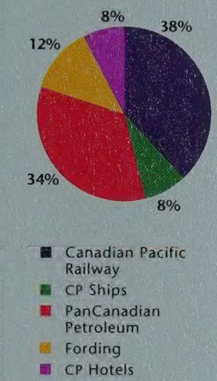
*working interest
**million barrels of oil equivalent
(natural gas converted at a rate of 10,000 cubic feet to one barrel of oil)

	1996	1995	1994
Revenues (millions)	$ 915.1	$ 821.9	$ 648.7
Operating income (millions)	$ 162.5	$ 138.5	$ 98.7
Net income (millions)	$ 93.6	$ 78.4	$ 54.7
Cash flow (millions)	$ 160.0	$ 141.6	$ 104.6
Cleaned coal sales*	12,100	11,400	9,200
Proven coal reserves**	1,920	1,930	1,942
Employees	1,800	1,800	1,700

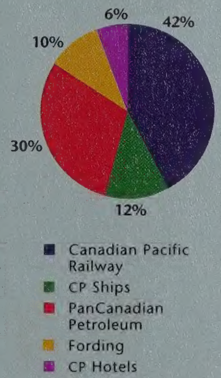
*thousand tonnes
**million tonnes

	1996	1995	1994
Revenues (millions)	$ 565.6	$ 518.5	$ 479.7
Operating income (millions)	$ 115.8	$ 96.9	$ 72.7
Net income (millions)	$ 70.0	$ 66.8	$ 27.6
Cash flow (millions)	$ 84.4	$ 53.8	$ 71.6
Hotels	26	24	25
Rooms	11,100	10,500	11,100
Employees (full-time equivalent)	7,400	7,100	7,100

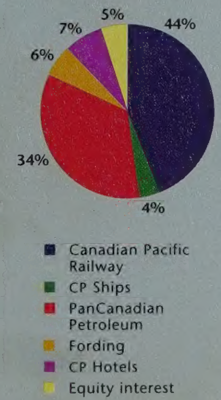
Operating Income



Revenues



Assets



CANADIAN PACIFIC RAILWAY

Canada is a trading nation and Canadian Pacific is a trading company. Our ability to compete successfully in today's global economy depends on efficient transportation. Canadian Pacific Railway plays a key role moving Canadian exports, particularly the agricultural and mining products so important to the western Canadian economy.

Canadian Pacific Railway has acquired 3,900 high-cubic-capacity covered hoppers during the last three years to improve productivity and service to shippers on its U.S. grain network.

A new Canadian Pacific Railway was born in 1996; new not just in name but in the way it operates its business and the way it serves its customers.

In July, Canadian Pacific Railway Company was established as a separate corporate entity rather than a division of Canadian Pacific Limited. In October, the railway's eastern assets were transferred to the St. Lawrence & Hudson Railway Company Limited, a separately incorporated subsidiary.

The restructured Canadian Pacific Railway is better positioned to compete in today's rapidly-changing North American railway environment. Its 3,800-mile core network in Western Canada is the shortest rail route for bulk commodities moving to export terminals at Vancouver and Thunder Bay and the most direct route from Western Canada to Chicago.

The St. Lawrence & Hudson in the east provides a key rail link between Montreal and the U.S. midwest, has direct access to major markets in the U.S. northeast and a dominant position at the Port of Montreal. It is showing modest profit but is not generating sufficient funds to sustain operations. A critical year of decision faces the eastern railway in 1997.

SHARP DROP IN EXPENSES BOOSTS OPERATING INCOME

Canadian Pacific Railway's strategic initiatives to reduce operating expenses, rationalize its rail network, renew core railway assets, improve customer service, and strengthen its eastern railway produced significantly better results in 1996. In spite of flat revenues, operating income increased 39% to $530.8 million compared with $382.3 million before restructuring charges in 1995.

Operating Income
($ millions)

■ Excluding restructuring charges

Gross Ton Miles per Active Employee
(millions)

Operating expenses dropped 5% or $155.8 million with part of the savings coming from the reorganization and downsizing of the management and administrative work forces. The management structure was simplified, more than 1,000 employees were moved from various locations in Canada and the U.S. to the company's new headquarters in Calgary and administrative costs were reduced significantly. The new structure improves the railway's ability to respond to customer needs in a comprehensive and timely manner.

Other factors contributing to reduced operating expenses were lower plant maintenance costs, lower train operating expenses and lower depreciation expenses.

The railway's operating ratio, a key measurement of railway performance, improved to 85.9% compared with 89.9% in 1995. Average employment dropped 7.2% in 1996 and has decreased a total of 15% in the last five years. Gross ton miles per employee were up 3.2% for a total gain of 33% during the last five years.

LINE RATIONALIZATION PROGRAM ACCELERATED

Line rationalization, a key component of the railway's cost-based turnaround, received a boost in July when the Canada Transportation Act came into force. The Act permits a more streamlined discontinuance process that treats the railway as a business and not a regulated monopoly.

In August, the railway announced its intention to accelerate network rationalization by divesting approximately 4,400 miles of line, 25% of its network, over a three-year period. The plan is aimed primarily at eliminating underutilized lines in Eastern Canada and the U.S. midwest.

By year-end the company had negotiated or was in the process of negotiating the sale, lease, discontinuance or shortlining of approximately 2,700 miles of line in Quebec, Ontario, Vermont and the U.S. midwest. The agreements cover 1,143 miles of line between Kansas City and Chicago, and in Iowa and Minnesota; 383 miles of branch lines in North Dakota; 240 miles in Quebec and Vermont; and 342 miles in Ontario between Smiths Falls and Coniston.

CAPITAL SPENDING FOCUSED ON IMPROVING CORE NETWORK

Capital spending in 1997 will again focus on lowering costs and improving product on the core network in order to maintain the railway's service levels and leading market position.

The railway's locomotive fleet will be upgraded with more efficient, high horsepower AC traction locomotives which will save on fuel, equipment rent and maintenance costs and enhance service reliability. The acquisition of high-cubic-capacity covered hoppers to transport bulk commodities and advanced-design intermodal cars will increase capacity, improve productivity and customer service, and reduce reliance on leased cars. Investments in centralized traffic control, sidings and other tracks will increase capacity and improve service.

Expansion and renewal of intermodal facilities is under way in Vancouver, Calgary and Chicago. The railway will also benefit from the opening of a new marine facility at the Port of Vancouver where it is the number one carrier of import/export containers.

A four-year project to reconstruct the Bensenville yard, a key interchange point in Chicago, will be completed in 1997.

TAX, LABOR CHALLENGES FACE EASTERN RAILWAY

The railway's biggest challenge lies in Eastern Canada where the rail infrastructure suffers from intense intermodal competition and high taxation. Decisive steps were taken in 1996 to bolster the railway's eastern network. The St. Lawrence & Hudson successfully introduced a number of measures to improve asset utilization, rationalize infrastructure and exploit market opportunities.

Two critical issues – high taxation and low workforce productivity – must be resolved to make the eastern railway viable.

The railway is seeking tax relief from provincial and municipal governments in Ontario and Quebec. It pays $30 million annually in property taxes alone in Eastern Canada on top of fuel taxes and the costs of maintaining its own roadway. A significant tax imbalance between railways and trucks gives the latter a big advantage in competing for dry cargo.

Existing labor agreements are inappropriate for the St. Lawrence & Hudson, which operates head-to-head against trucks and the publicly-funded St. Lawrence Seaway system. Only a fundamental breakthrough in labor-management cooperation will produce the necessary productivity improvements.

COST CUTTING INITIATIVES WILL CONTINUE IN 1997

Cost cutting initiatives and service and productivity improvements will continue in 1997. The railway expects to realize the full benefits of measures implemented in 1996 as well as recent efforts to rationalize track across the system and restructure the cost position of the St. Lawrence & Hudson. Growth in freight revenue will come primarily from a record grain harvest, higher coal production and increased import/export container traffic. This will be offset to some degree by the impact of the line rationalization program.

Railway Operating Ratio
(%)

■ Excluding restructuring charges

TRAFFIC VOLUME

(Billion revenue ton miles)	1996	1995	1994	1993	1992
Grain	25.9	26.7	27.2	27.0	28.4
Coal, Sulphur, and Fertilizers	33.4	34.1	30.7	26.4	23.7
Forest Products	9.3	10.1	10.1	9.7	9.0
Other Resources	13.5	13.4	13.0	11.5	10.7
Intermodal	14.3	14.7	14.0	11.8	10.2
Automotive	1.6	1.7	1.7	1.6	1.5
Total*	103.4	107.0	102.3	93.9	89.1

*Totals include food and consumer products traffic and adjustments

CP SHIPS

All our businesses thrive on international trade and none more so than CP Ships. It is a vital link in Canada's two-way trade with Europe, carrying almost half a million containers annually across the North Atlantic. Its intermodal transportation network serves markets across Canada and reaches into the industrial heartland of the United States.

Canmar Fortune, one of two 2,200-teu ships that entered service in 1996, loads containers at Antwerp, Canada Maritime's major port of call in Northern Europe.

A combination of record container carryings and significant cost reductions made 1996 the best year ever for CP Ships.

Container carryings increased 20% to 480,000 teu. Revenues increased 18% to $1.1 billion and operating income jumped 44% to $110.9 million.

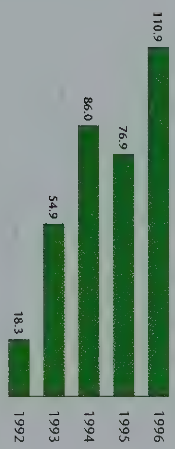
Average revenue per teu was lower than in 1995 but strong volumes and significant efficiency improvements, particularly from operational synergies between Canada Maritime and Cast, drove earnings higher. A revitalized and restructured Cast, in its first full year under CP Ships management, made a significant contribution to the record performance.

CP Ships is the largest carrier of containers on the North Atlantic. It has consistently increased its scale of operations and its market share by building a service through the Port of Montreal that is more cost-effective and more service-effective than those of its competitors. In order to continue to grow, it has to broaden its horizons.

ROUTE STRUCTURES REVAMPED AND SHIPS REDEPLOYED

CP Ships introduced new route structures and redeployed ships on its Northern and Mediterranean services in 1996. The new schedules improved service reliability and transit times, increased Northern service capacity to meet growing demand, and reduced combined Canada Maritime and Cast operating costs.

Canada Maritime and Orient Overseas Container Line, partners in the St. Lawrence Co-ordinated Service linking North America and Northern Europe, introduced larger ships and agreed to exchange container slots with Cast on their respective services.



Operating Income
($ millions)

During the year Canada Maritime took delivery of two ice-strengthened, 2,200-teu ships, the first built specifically for the North Atlantic trade in more than a decade, and two refurbished, secondhand 1,800-teu ships. All are now operating on the three weekly Northern Service loops along with Cast's four chartered 2,100-teu ships and two OOCL ships.

On the Mediterranean service, schedules and tonnages were refined to provide improved transit times, better port coverage, more closely matched ships, and less capacity in an overtonnaged market. Canada Maritime, Cast and DSR-Senator Lines co-operate in the Joint Mediterranean Canada Service. Canada Maritime's four 1,000-teu ships and two 800-teu ships plus three DSR-Senator ships operate on two weekly loops. Cast has a fixed allocation of slots.

CANADA MARITIME VOLUMES REACH RECORD LEVELS

Canada Maritime's Northern service carryings reached record levels in 1996, primarily as a result of strong North American export trade. Freight rates were firm eastbound but declined westbound in a softer market. Unit costs and fixed costs were lower.

Mediterranean service volumes also reached record levels. Eastbound exports were strong and westbound volumes increased slightly but freight rates weakened in both directions as overall trade capacity expanded. Canada Maritime acquired Jadroplov's 28% interest in the Mediterranean service effective January 1997.

Early in 1997, Canada Maritime contracted for two new 2,650-teu ships to be delivered in 1998. They are similar to, but larger than, the new ships delivered in 1996. Three hundred new refrigerated containers were acquired in 1996.

PROFITABLE CAST OPERATION PAYS OFF FOR CP SHIPS

Cast also achieved record volumes and earned a good return on CP Ships' $150 million investment in the acquisition and reorganization of the line. Cast benefited from particularly strong North American exports but westbound volumes were flat and freight rates in both directions came under market pressure.

Cast's improved service was augmented by significant unit cost reductions achieved through more effective management and joint initiatives with Canada Maritime. There is potential for further efficiencies through synergies and joint cost reductions between the two lines, particularly in container and logistics management. In December, the Canadian Bureau of Competition Policy instituted proceedings against Canadian Pacific seeking an order from the Competition Tribunal that CP Ships divest itself of Cast.

Cast was acquired at the end of March 1995. It was insolvent at the time and has

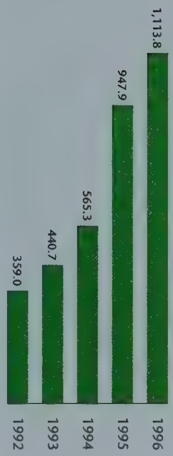
since been restored to financial health. The acquisition was approved by the National Transportation Agency in January 1995 after a two-week hearing on competition issues. The NTA ruled that the acquisition did not raise competition concerns, that it was important to protect and strengthen the continued health of the Port of Montreal and the Montreal economy, and that shippers would not suffer. The Federal Court of Appeal subsequently dismissed an appeal of the NTA decision. CP Ships intends to vigorously oppose the application before the Competition Tribunal.

SYNERGIES, NEW INVESTMENT CREATE TERMINAL EFFICIENCIES

Record container throughput enabled Montreal Terminals Group to maintain its earnings in 1996 in spite of cost inflation. Since the acquisition of Cast and the formation of the Montreal Terminals Group in 1995, CP Ships has committed $25 million in new investment at the Racine and Cast terminals for five rubber-tired gantries and two ship-to-shore gantry cranes. By combining volumes of Canada Maritime and Cast at the Port of Montreal and allocating work between the Racine and Cast terminals, CP Ships has improved the utilization of its terminal assets and created a more efficient operation. A major study undertaken with the Port of Montreal is leading to important efficiency improvements at the terminals, the port interface and the rail operations.

STABLE NORTH ATLANTIC MARKETS EXPECTED IN 1997

Canada Maritime and Cast compete on the North Atlantic against numerous world-scale carriers serving ports all along the North American east coast. The outlook for this highly-competitive market in 1997 is stable and trade volumes are expected to remain firm. Westbound freight rates are under particular pressure and new carriers are entering the North Atlantic trade. Cost reduction initiatives will continue to have a positive impact.



Revenues
($ millions)

Container Carryings
(000 twenty-foot equivalent units)

In each of our businesses we are doing things that create value for Canadians. PanCanadian is Canada's second largest producer of oil and gas and the majority of its production goes to export markets. As it continues to grow, it is moving beyond its traditional western Canadian base into new development areas in Eastern Canada and internationally.

PanCanadian will supply 22 million cubic feet per day of natural gas to this new cogeneration plant near Kingston, Ontario. The plant will use the gas to produce electricity and steam.

PanCanadian had another outstanding year in 1996. It achieved record operating income and cash flow, increased its crude oil and natural gas production and added significantly to its reserves.

Unexpectedly high world oil prices, improved natural gas prices and additional natural gas marketing initiatives helped boost revenues 48% to $2.7 billion and raise operating income 38% to $474.8 million. Cash flow increased 24% and reached $1 billion for the first time.

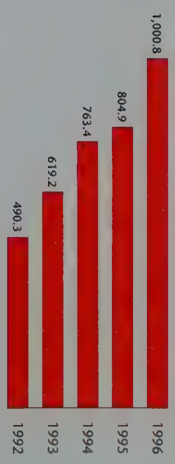
Production of conventional crude oil and field liquids increased 11% to 146,331 barrels per day. The selling price of oil increased 10% after hedging activities.

Successful exploration and development activity, the introduction of new technology, and the acquisition of a 50% interest in the Copan project offshore Nova Scotia made important contributions to increased production. Copan is Canada's only offshore producing oil field.

Natural gas production increased slightly to 717 million cubic feet per day and prices increased 12% after hedging.

PanCanadian drilled 1,008 oil and gas wells in Canada in 1996. Overall, PanCanadian replaced 125% of its production and added 100 million barrels of oil equivalent to proved reserves.

Operating Income
($ millions)



Cash Flow
($ millions)

SYNCRUDE, PALLISER INITIATIVES IMPROVE FUTURE PROSPECTS

Two major corporate initiatives during the year significantly strengthened the company's prospects.

In June, PanCanadian sold its 10% interest in Syncrude through a royalty trust for approximately $385 million. This will enable it to take advantage of other strategic investment opportunities in Western Canada and elsewhere. Syncrude is a joint venture formed to produce synthetic crude oil by upgrading bitumen extracted from oil sands in northern Alberta.

In December, PanCanadian and NOVA Gas Transmission Limited reached agreement on pricing which should eliminate the need to construct the proposed Palliser Pipeline in which PanCanadian has a 50% interest. The agreement with NOVA should lower PanCanadian's gas transportation costs and reinforce the value of its land base which is primarily in southern Alberta.

PANCANADIAN EXPANDS SEARCH FOR NEW GROWTH OPPORTUNITIES

PanCanadian's strategic objective is to significantly grow its western Canadian base while establishing a meaningful presence outside the Western Canada sedimentary basin. During 1996, PanCanadian increased its involvement in Eastern Canada and continued to redirect and expand its international involvement.

In Eastern Canada, in addition to its investment in Copan, PanCanadian acquired a 37.5% interest in three additional parcels of land in the western Newfoundland basin where it now has interests in 1.0 million net acres. PanCanadian remains optimistic about the potential of this basin.

Internationally, it acquired a foothold in the North Sea when it concluded an agreement with Oryx UK Energy Company for exploration and production on 22 blocks off the coast of Great Britain.

CAPITAL EXPENDITURES TARGETED AT $1 BILLION

PanCanadian's strong financial position enables it to pursue a vigorous reinvestment strategy. In 1996, capital expenditures of $776 million were devoted primarily to exploration and development in Western Canada.

Capital spending in 1997 will increase to approximately $1 billion. The program includes almost half a billion dollars for exploration and development, nearly a quarter of a billion dollars for production facilities, and $80 million for international projects, half of which will be spent on PanCanadian's North Sea interest.

PanCanadian has developed a significant position in the natural gas liquids business. It has interests in four of the five natural gas liquids extraction plants that straddle two major gas transmission pipelines at Empress, Alberta, and has the capacity to process approximately 1.5 billion cubic feet of natural gas per day. In September, it began operating a new $72 million facility with a

permitted throughput capacity to process approximately 800 million cubic feet of natural gas per day. Kinetic Resources, a natural gas liquids marketing partnership in which PanCanadian holds a 75% interest, will market the plant's liquids production directly to customers.

MAJOR ROLE ESTABLISHED IN OIL AND GAS MARKETING

PanCanadian markets approximately 200,000 barrels of oil per day, about 10% of Canada's daily output. It is one of the largest marketers of oil in North America. During 1996, it added 66,000 barrels per day to its marketed volumes.

In June, PanCanadian purchased the 25% of National Gas & Electric L.P. that it did not already own. The Houston-based company marketed approximately 1 billion cubic feet per day of natural gas in 1996 and gives PanCanadian a strong base on which to expand its natural gas marketing business throughout North America.

PanCanadian has a 25% interest in the Kingston Cogen Limited Partnership which is constructing a 100-megawatt cogeneration facility near Kingston, Ontario. It is expected to be operational early in 1997 and PanCanadian will supply 22 million cubic feet per day of natural gas to the plant.

In December, PanCanadian offered for sale a package of non-core land assets with an estimated daily production capacity of 2,400 barrels of oil and natural gas liquids and 16 million cubic feet of natural gas. Proceeds are expected to be used for new exploration and production activities.

PRODUCTION GROWTH EXPECTED TO CONTINUE IN 1997

The 1997 outlook is positive. PanCanadian expects further production growth in Western Canada. It will continue to focus on reducing costs, diversifying its business activities, enchancing productivity and pursuing selective opportunities beyond Western Canada.

Average Daily Production
(000 barrels of oil equivalent)

- Natural gas
- Natural gas liquids
- Conventional oil

WEIGHTED AVERAGE PRICES RECEIVED

	1996	1995	1994	1993	1992
Conventional crude oil [1,3]	$ 24.47	$ 20.17	$ 17.35	$ 16.48	$ 17.87
Field natural gas liquids [1]	18.08	14.06	12.76	14.21	14.56
Natural gas [2,3]	1.60	1.25	1.84	1.65	1.31

1 per barrel
2 per thousand cubic feet
3 excludes hedging

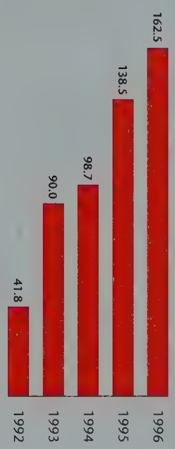
We have one of Canada's strongest business portfolios, fuelling the country's trade growth abroad and its economic prosperity at home. Fording's highly-efficient mining operations, and its reputation for quality and reliability, enable it to compete successfully against the world's best coal producers for markets around the globe.

Metallurgical coal from Fording's British Columbia mines moves to export markets around the world through Westshore Terminal at Roberts Bank south of Vancouver.

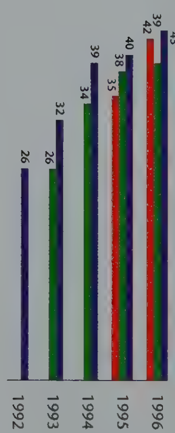
Fording had another active and profitable year. Coal production at each of its three British Columbia mines reached record levels, plant modifications were completed at its newest mine at Coal Mountain, good cost performance continued at all operations, and construction started in Mexico at what will be the world's largest wollastonite mine and processing facility.

Fording is Canada's largest and most diversified exporter of metallurgical coal. Its low-cost operations and high mine productivities give it a distinct competitive advantage in Canada and enable it to compete successfully against the best coal producers in the world.

These strengths have helped Fording grow and increase profitability consistently over the years and 1996 was no exception. Operating income increased 17% to \$162.5 million compared with \$138.5 million in 1995. Fording benefited from a 4% increase in April in the benchmark price it receives from the Japanese steel producers for its metallurgical coal. This followed a 12% price increase in April 1995.



Operating Income
($ millions)



Productivity
(tonnes of cleaned coal per employee per 8-hour manshift)

- Coal Mountain
- Greenhills
- Fording River

MAJOR CAPITAL INVESTMENT IN NEW WOLLASTONITE MINE

Fording's capital expenditures will increase significantly to more than $200 million in 1997, primarily for expansion projects. The major expenditure, close to $100 million, will be on Fording's new Pilares mine and processing facility in northwest Mexico. During 1996, Fording completed 60 kilometres of paved highway to the mine site and started construction of the process plant and service facilities. Commercial operations are scheduled to start by the end of 1997. The mine ultimately will be able to produce 240,000 tonnes of wollastonite per year. It is close to tidewater with good access to the Atlantic and Pacific oceans and the U.S. market.

Fording invests significant amounts of money annually in upgrading infrastructure, equipment and processing plants at all its mines. This has increased the total production capability of its three B.C. mines to 15 million tonnes a year.

In 1996, operating income from the three B.C. mines rose 33% as a result of higher volumes and prices. Production increased 13% to 13.9 million tonnes and sales were up 6% to 12.1 million tonnes, reflecting increased sales to Europe and, to a lesser extent, Asia.

Fording River production increased 9% to a record 7.9 million tonnes. Technological improvements and upgraded equipment contributed to better plant efficiencies and productivity. Greenhills, which is 80% owned by Fording, increased production by 10% to 4.2 million tonnes, primarily as a result of plant expansions completed in 1995. Coal Mountain, in its second year of operation, completed upgrading its facilities, started 24-hour-per-day operations at its processing plant and increased production 67% to 1.8 million tonnes.

Operating earnings from Fording's Alberta operations declined slightly. The Mildred Lake operation, which removes overburden for Syncrude Canada Ltd. at its oil sands site in northern Alberta, experienced unusually adverse weather conditions that restricted mining productivity and increased operating costs. Mildred Lake removed 11.6 million banked cubic metres of overburden compared with 12.0 million in 1995.

Operating earnings were flat at Whitewood and slightly higher at Genesee. Coal volume delivered at Whitewood was essentially unchanged and costs declined slightly as a result of equipment upgrades made in late 1995. Genesee mined 3.5 million tonnes of coal, unchanged from 1995. Lower maintenance costs produced a 7% decline in unit production costs.

Royalty revenues from coal and potash mined by third parties on Fording leases were lower in 1996.

INTENSIVE MARKETING EFFORT FOR WOLLASTONITE PRODUCTION

NYCO Minerals' operating income was unchanged at $15.5 million. NYCO has launched an intensive marketing program to meet increased production capacity at its Willsboro, New York operations and the start of production at Pilares in Mexico.

Fording's worldwide reputation for efficiency and competence, a tribute to its motivated and experienced workforce, is a decided advantage in its constant search for new markets around the world.

In addition, the company's low cost base enables it to take full advantage of profitable growth opportunities on its mineral lands in Canada, the United States and Mexico.

Fording's enormous reserves of coal and wollastonite are its underlying strength. Its 400,000 hectares of land in Western Canada contain some 1.9 billion tonnes of high-quality coal reserves, sufficient to meet current production for about a century. Similarly, Fording has 30 to 40 years of reserves of some of the highest-quality wollastonite in the world in New York state, and an estimated 100 million tonnes of wollastonite reserves in Mexico.

POSITIVE 1997 OUTLOOK FOR EXPORT COAL SALES

The 1997 outlook for export coal sales is positive and Fording plans to make concerted marketing efforts in Europe, Asia and South America. Prices are expected to remain stable. Capital expansion programs, now substantially completed, will allow the B.C. operations to produce at record levels in 1997 and significantly increase export sales.

Coal Sales Volume*
(000 tonnes cleaned coal)

- Coal Mountain
- Greenhills
- Fording River

*British Columbia Operations

COAL SALES VOLUMES BY AREA*

(%)	1996	1995	1994	1993	1992
Japan	29	24	27	29	32
Korea	18	22	24	36	21
Europe	37	30	18	8	21
North America	3	7	12	8	6
South America	6	7	5	5	9
Other	7	10	14	14	11
Total	100	100	100	100	100

*British Columbia operations

CANADIAN PACIFIC HOTELS

Worldwide travel and tourism is expected to double during the next 10 years. Canada is one of the best travel bargains in the world and is attracting visitors in record numbers. Approximately half of Canadian Pacific Hotels' business comes from outside Canada, lured by the international reputation of its mountain resorts and the unrivalled location of its city centre properties.

Just seven years after it opened, the booming Chateau Whistler resort in British Columbia is building 221 additional guest rooms and doubling its convention and banquet facilities.

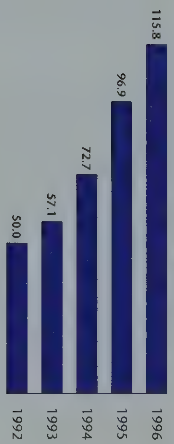
Canadian Pacific Hotels continued to build on its significant competitive strengths in the Canadian marketplace in 1996 and had its third consecutive year of record profits.

Operating income increased 19.5% to $115.8 million compared with $96.9 million in 1995. Earnings growth was driven by strong improvement at most hotels, particularly the destination properties which benefited from initiatives to promote business during slow seasons.

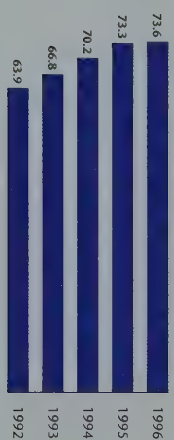
Occupancy levels improved to 73.6% and room rates increased 10%. This resulted in strong 10.5% growth in revenue per available room.

The hotel company took advantage of some of the best market conditions ever in the Canadian hotel industry during 1996. Relatively flat room supply prevailed in an environment of rapidly-increasing demand. A favorable exchange rate and an unprecedented international marketing program by the Canadian Tourism Commission lifted international travel volumes to record levels.

Today, Canadian Pacific Hotels is profiting from a century-old competitive advantage: the unparalleled locations and worldwide



Operating Income
($ millions)



Occupancy Rates
(%-Owned hotels)

reputations of its landmark heritage properties, particularly its destination properties in Western Canada. Every one of these hotels has been fully restored and upgraded during the last 10 years.

The company is meeting the challenge of staying ahead of its competition in a very dynamic industry with a three-pronged strategy. It is designed to exploit the full potential of its existing assets, identify expansion opportunities in complementary areas in Canada, and enhance revenue management through service improvements and cost controls. A constant focus on these strategic objectives has increased Canadian Pacific Hotels' market share and is producing revenue and operating margins superior to the industry average.

NEW FACILITIES INCREASE POTENTIAL OF PROPERTIES

The company is adding rooms and other facilities to its existing properties as market conditions permit.

The highly-successful spa opened at Banff Springs Hotel in 1995, a $45 million expansion at Chateau Whistler started in 1996, and a $12.7 million redevelopment of the ground floor lobby and lower lobby retail area at the Hotel Vancouver completed last September are prime examples of successful efforts to increase the potential and improve the year-round profitability of existing properties. The Chateau Whistler project, which will be completed in August, includes 221 additional guest rooms, a 12,000-square-foot conference wing and four smaller meeting rooms.

The company's 1997 capital program includes further expansion projects at existing properties, among them an executive meeting centre at the Royal York, and additional guest rooms at Le Chateau Frontenac in Quebec City and The Empress in Victoria.

MONT TREMBLANT, WINNIPEG HOTELS AUGMENT CHAIN

Two hotels added to the chain in 1996 increased the number of properties across Canada to 26.

The 316-room Chateau Mont Tremblant, a newly-built resort property at Mont Tremblant, Quebec, opened in November. Canadian Pacific Hotels has a 20% interest and manages the property.

The Lombard in Winnipeg, formerly the Westin Winnipeg, joined the chain in September when Canadian Pacific Hotels signed a long-term contract to manage the 350-room property.

NEW SERVICES AND TRAINING BOOST CUSTOMER SATISFACTION

Service innovations had a significant impact throughout the chain in 1996. More than 4,000 guest rooms were equipped with business amenities. Business centres for Canadian Pacific Club members were opened in two hotels and more will be introduced in 1997. New software enhanced the capabilities of the company's reservations centre in Moncton, which now has direct access to the same room and function space inventory as reservation agents in each hotel. Intensive selection and training programs helped boost customer satisfaction ratings to all-time highs. The company invests heavily in staff training and all its employees will have completed newly-developed training programs by the end of 1997.

Canadian Pacific Hotels won the International Hotel Association's Green Hotelier of the Year Award in 1996 in recognition of its industry-leading work in the environmental field. Environmental audits have demonstrated significant savings from waste management and energy conservation.

BUOYANT MARKETS SHOULD PRODUCE RECORD PROFITS IN 1997

Canadian Pacific Hotels expects another year of record profits in 1997. Buoyant market conditions are expected to continue with little change in supply and continued growth in demand, particularly from international markets. The hotel company is ideally positioned to capitalize on these conditions. It is not dependent on any one market segment and approximately half its business originates outside Canada, primarily from the United States but also in significant volumes from Japan, Britain, France and Germany. Its business is also equally divided between group and transient travellers and between leisure and business guests.

Average Room Rates
($-Owned hotels)

The information in this Annual Report is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's best estimates and careful judgment.

Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. The internal audit department reviews these accounting controls on an ongoing basis and reports its findings and recommendations to management and the Audit Committee of the Board of Directors.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting of four members, all of whom are outside directors. This Committee reviews the consolidated financial statements with management and the independent auditors prior to submission to the Board for approval. It also reviews the recommendations of both the independent and internal auditors for improvements to internal controls as well as the actions of management to implement such recommendations.

Executive Vice-President and
Chief Financial Officer

David P. O'Brien

Chairman, President and
Chief Executive Officer

February 7, 1997

THIS MANAGEMENT'S DISCUSSION AND ANALYSIS FOR CANADIAN PACIFIC LIMITED (THE CORPORATION) AND ALL OF ITS BUSINESSES IS SUPPLEMENTAL TO THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES CONTAINED IN THE 1996 ANNUAL REPORT TO SHAREHOLDERS. THE FINANCIAL STATEMENTS FOR THE YEAR 1996 WERE PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IN CANADA. DIFFERENCES FROM GAAP IN THE U.S. ARE DISCLOSED IN NOTE 22 ON PAGES 68 AND 69 OF THE ANNUAL REPORT TO SHAREHOLDERS.

OVERVIEW

In 1996 the Corporation completed important steps in its restructuring program, achieved strong income growth, increased cash flow, received regulatory approval for a stock repurchase program, and successfully implemented a Corporate reorganization.

On July 4, 1996, a reorganization was implemented to simplify the corporate structure, creating one class of shares, and to place the railway on the same basis as other subsidiaries. Holders of Ordinary and Preference shares became holders of new Common shares as did those holders of 4% Consolidated Debenture stock who elected to exchange their stock. After the reorganization, the Corporation became the new parent company of the Canadian Pacific group, including Canadian Pacific Railway Company (CPRC), which is now a wholly-owned subsidiary of the Corporation. This gives the railway direct access to capital markets and expands its options for mergers, sales and joint ventures. Another major restructuring step in 1996 was the completion of the sale of most of the Corporation's real estate assets during the year, thereby reducing net debt by approximately $1.5 billion. In addition, in early 1996 the Corporation completed the restructuring of Unitel Communications Holdings Inc. (Unitel).

The Corporation's businesses in 1996 focused on growth, better cost control and enhanced productivity in order to improve operating margins.

- CPRC, which is mainly comprised of its railway operations (CP Railway), formed a separate subsidiary for its eastern operations, made substantial progress on line rationalization and largely completed its cost-cutting initiatives which included management reorganization and the relocation of executive offices to Calgary.
- CP Ships achieved joint operational synergies at Canada Maritime Limited (Canada Maritime) and CP Containers (Bermuda) Limited (Cast). While operating as separate lines, both shipping lines have been able to improve competitiveness, strengthen market positions and enhance services to their respective customers. Late in 1996 CP Ships announced its intention to acquire Lykes Lines, a U.S.-based container service which had been operating under U.S. bankruptcy laws.
- PanCanadian Petroleum Limited (PanCanadian) expanded its production levels and at the same time replaced 125% of annual production with the addition of 100 million barrels of oil equivalent to proved reserves. (PanCanadian's oil equivalent volumes are converted at the rate of 10,000 cubic feet of natural gas to one barrel of oil).Pan Canadian also brought on-stream a new natural gas liquids extraction plant at Empress, Alberta, entered into new agreements for exploration and development in international markets, sold its 10% interest in Syncrude Canada Ltd. (Syncrude) and reached a new pipeline agreement to reduce gas transportation costs in future years.
- Fording Inc. (Fording) started development of its new wollastonite reserves in Mexico and continued to expand its coal mines in British Columbia.
- Canadian Pacific Hotels & Resorts Inc. (CP Hotels) started expansion of facilities at Chateau Whistler in British Columbia, acquired a long term contract to manage the 350 room Lombard Hotel in Winnipeg, Manitoba, and began to manage the newly-built, 20% owned Chateau Mont Tremblant, situated north of Montreal.

Over the last three years the Corporation's cash flow has steadily increased, debt levels have been reduced substantially and liquidity has been maintained largely through debt renewals and asset sales. The strong income level attained in 1996 followed a loss in 1995 when the Corporation incurred signifi-

cant charges to write down the value of certain under performing assets to reflect fair values. Late in 1995, the Corporation completed the disposal of its investment in United Dominion Industries Limited, a manufacturing and engineering construction company. In 1994, the refocusing of the portfolio on the core businesses included the sale of the Corporation's trucking operations and also brought about a turnaround in results from a loss reported in 1993.

FINANCIAL PERFORMANCE

The Corporation reported net income of $829.1 million in 1996, which reversed a loss of $823.5 million in 1995 and compared with net income of $393.1 million in 1994. On a Common share basis, net income amounted to $2.41 per share in 1996, while the loss was $2.41 in 1995, and income was $1.16 in 1994. Per share figures are based on a weighted average number of Common shares outstanding of 344.4 million in 1996, 342.1 million in 1995 and 337.5 million in 1994.

CONTINUING OPERATIONS

Income from continuing operations was $834.1 million in 1996, or $2.42 per Common share, compared with a loss of $265.4 million, or $0.78 per Common share, in 1995 and income of $464.9 million, or $1.38 per Common share, in 1994.

(in millions, except per share amounts)	1996	1995	1994
Revenues	$ 8,684.0	$ 7,550.5	$ 6,592.9
Operating income			
CP Railway	$ 530.8	$ (760.7)	$ 305.7
CP Ships	110.9	76.9	86.0
PanCanadian	474.8	344.4	407.1
Fording	162.5	138.5	98.7
CP Hotels	115.8	96.9	72.7
	1,394.8	(104.0)	970.2
Income (loss) from continuing operations	834.1	(265.4)	464.9
Per Common share	$ 2.42	$ (0.78)	$ 1.38

Net income in 1996 included the following non-recurring items:

- repayment of Consolidated Perpetual 4% Debenture Stock resulted in a non-cash gain of $120.4 million.
- the sale of CP Hotels' remaining shares in Doubletree Corporation (Doubletree) produced an after tax gain of $19.6 million ($31.0 million before taxes).
- the sale of the railway's equity investment in an industry insurance association resulted in an after tax gain of $16.7 million ($16.7 million before tax).
- an adjustment to the amortization of the discount on previous restructuring accruals booked by the railway resulted in an after tax non-cash charge of $16.5 million ($30.0 million before taxes).
- at the Corporate level charges totalled $46.8 million, including a general tax provision of $25.0 million.

The Corporation's loss in 1995 included the following non-recurring items:

- The railway incurred charges totalling $704 million after tax ($1,143 million at the operating income level), comprising: a write-down of $406 million ($703 million before tax) to bring the carrying value of the railway's eastern Canadian and U.S. assets in line with estimates of fair value; $162 million ($268 million before tax) to cover severance, relocation and other costs relating to the railway reorganization, and $136 million ($172 million before tax) to cover estimated future environmental costs, labor liabilities associated with the rationalization of underutilized track, the closure of two repair shops and other minor items.
- The Corporation recorded charges of $70 million ($90 million before tax) in other expenses relating to its corporate restructuring plan.
- CP Hotels realized a net gain of $34 million ($60.7 million before tax) on the sale of approximately four million Doubletree shares.

1996 PERFORMANCE COMPARED WITH 1995

OPERATING INCOME

Consolidated revenues amounted to $8,684.0 million in 1996, up $1,133.5 million, or 15%, over 1995 due mainly to the energy sector, particularly PanCanadian. Operating earnings amounted to $1,394.8 million in 1996, contrasting with a loss of $104.0 million in 1995. Excluding non-recurring items in both years, operating income increased from $1,039.0 million in 1995 to $1,378.1 million, representing a $339.1 million, or 33% improvement. All of the operating companies reported improved operating income in 1996.

TRANSPORTATION

Transportation revenues increased $140.8 million to $4,749.2 million in 1996 and operating income of $641.7 million contrasted with a loss of $683.8 million in 1995.

CP RAILWAY

(in millions)	1996	1995	1994
Revenues	$ 3,772.1	$ 3,779.4	$ 3,693.8
Expenses	3,241.3	4,540.1	3,388.1
Operating Income	$ 530.8	$ (760.7)	$ 305.7
Railway operating ratio	85.9%	120.1%	91.7%

Excluding restructuring charges totalling $1,143 million in 1995, CP Railway's operating earnings in 1996 increased $148.5 million, or 39%, while revenues decreased marginally. Excluding the restructuring charges in 1995, the railway's operating ratio improved by four percentage points from 89.9% in 1995 to 85.9% in 1996. The improved results stemmed principally from cost-cutting initiatives which reduced operating expenses by $155.8 million, or 5%.

Much of the improvement at the railway came from streamlining operations and reducing administrative staff, and from the acquisition of new locomotives and covered hoppers. The average number of active employees dropped by 1,700, or 7.2%, in 1996. Other cost-cutting measures were also initiated in the maintenance plants and on train operations. Plant maintenance costs declined due to fewer supervisors, a curtailment of overtime and the streamlining and closure of shops in Montreal and Minneapolis. Train operating costs decreased reflecting the withdrawal from less profitable businesses and improved productivity in yard operations. Depreciation expense was also lower in line with the asset write-down at year-end 1995.

Operating Expenses
(excluding restructuring charges)

(in millions)	1996	1995	Increase/ (Decrease)
Compensation and benefits	$ 1,342.6	$ 1,362.3	$ (19.7)
Material and purchased services	724.9	781.4	(56.5)
Fuel	324.4	322.0	2.4
Rentals	298.2	335.3	(37.1)
Depreciation and amortization	187.9	207.4	(19.5)
Other	363.3	388.7	(25.4)
Total	$ 3,241.3	$ 3,397.1	$ (155.8)

Freight revenues were down $39.7 million in 1996, as total shipments decreased 3%, while there was a 2% increase in rates. Intermodal revenues were negatively affected by the withdrawal from less profitable business in the U.S. Northeast and Canada; forest product revenues were down owing chiefly to a reduction in woodpulp shipments; and the decline in automotive products mainly reflected unscheduled plant downtime and labor disruptions in 1996.

Freight Revenues

(in millions)	1996	1995	Increase/ (Decrease)
Grain	$ 832.8	$ 838.8	$ (6.0)
Coal/sulphur & fertilizers	933.4	929.8	3.6
Forest products	341.6	363.8	(22.2)
Other resource products	535.8	521.8	14.0
Intermodal/containers	595.9	632.5	(36.6)
Automotive	237.4	250.0	(12.6)
Food, consumers & other	72.6	52.5	20.1
Total	$ 3,549.5	$ 3,589.2	$ (39.7)

Other revenues were up $32.4 million, or 17%, attributable to greater real estate sales and a $16.7 million gain on the sale of an equity investment in an industry insurance association in 1996.

CP SHIPS

(in millions)	1996	1995	1994
Revenues	$ 1,113.8	$ 947.9	$ 565.3
Expenses	1,002.9	871.0	479.3
Operating Income	$ 110.9	$ 76.9	$ 86.0

In 1996, CP Ships' revenues increased $165.9 million, or 18%, and operating income rose $34.0 million, or 44%. Total container carryings, comprising record volumes at both Canada Maritime and Cast, were up 20% over 1995, however, shipping rates declined 2%. Positive factors included expanded operations, the full-year effect of earnings from the Cast container operations, acquired on March 31, 1995, and the non-recurrence of service disruptions due to rail and port strikes in 1995. Two new container ships and two refurbished ice-strengthened vessels were added to the fleet, while one ship was sold during 1996. Eastbound trade on both Canada Maritime and Cast strengthened in 1996, however, westbound container rates weakened. The restructured Cast operation together with an improved service product were reinforced by significant unit cost reductions at Cast in 1996 achieved through more effective management and joint initiatives with Canada Maritime.

ENERGY

Energy revenues and operating income increased $979.8 million and $154.4 million, respectively in 1996.

PANCANADIAN

(in millions)	1996	1995	1994
Revenues	$ 2,744.2	$ 1,857.6	$ 1,478.2
Expenses	2,269.4	1,513.2	1,071.1
Operating Income	$ 474.8	$ 344.4	$ 407.1

In 1996, PanCanadian's revenues increased $886.6 million, or 48%, reflecting mainly greater third-party marketing activities and operating income improved $130.4 million, or 38%. The increase in operating income came principally from higher commodity prices and greater volumes of oil, partially offset by commodity hedging losses.

Early in 1996 an unforeseen rise in the price of crude oil came about at a time when the oil market was anticipating the pending return of Iraqi oil exports. The benchmark price of West Texas Intermediate crude oil rose from U.S. $18.40 per barrel during 1995, to average U.S. $22.01 per barrel during 1996. Natural gas prices in North America improved slightly in 1996, but Canadian gas prices were negatively affected in the first three quarters by restricted pipeline capacity into the higher priced U.S. markets as well as by increased competition among Canadian producers. The average Alberta plant gate price for natural gas was $1.26 per thousand cubic feet (mcf) in 1996, compared with $1.03 in 1995.

Conventional crude oil revenues were up $211.1 million, of which $96.7 million was due to improved prices and $114.4 million was due to greater volume. Natural gas revenues increased $41.4 million reflecting a $38.8 million rise from higher price levels. Revenues from field natural gas liquids increased $18.2 million, primarily due to higher prices, up from $14.06 per barrel in 1995 to $18.08 per barrel in 1996. Revenues from Empress plant liquids increased $25.2 million reflecting favorable price movement from $15.10 per barrel in 1995 to $20.85 per barrel in 1996. Revenues from the resale of third-party produced crude oil, natural gas and natural gas liquids increased from $445.9 million in 1995 to $1,144.8 million in 1996 reflecting mainly increased market penetration through marketing partnerships in the U.S. The cost of these products purchased for resale was up from $426.3 million in 1995 to $1,098.1 million in 1996.

Production levels increased 13% for PanCanadian's conventional crude oil and 1% for natural gas. Average daily production in 1996 totalled 132,723 barrels of conventional oil and 717 million cubic feet (mmcf) of natural gas. Before hedging, the weighted average price for conventional oil increased 21% to $24.47 per barrel, reflecting higher benchmark prices and stronger prices for PanCanadian's product mix. Weighted average prices of natural gas, prior to hedging, rose 28% to $1.60 per mcf, reflecting improvement from 1995 when oversupply conditions prevailed. Hedging activities reduced the realized oil price by $2.45 per barrel to $22.02 and lowered the realized gas price by 19 cents to $1.41 per mcf. The net cost associated with hedging activities in 1996 was approximately $169 million, of which $119 million related to oil commodity hedging. These hedging costs were net of PanCanadian's foreign currency hedging activities, which produced a gain of $32 million. All natural gas hedging contracts expired in the third quarter of 1996.

With respect to operating expenses on a barrel of oil equivalent, conventional working interest oil and gas operating costs were $4.69, up 21%, due primarily to high front end costs associated with greater heavy oil production and the addition of more cost intensive Copan operations. The combined rate of depletion and depreciation was $6.70 per barrel of oil equivalent for Canadian operations, up from $6.64 in 1995, reflecting the increase in the cost of finding and developing oil and gas reserves, while international operations required a $70.0 million write-down to be included in 1996 depreciation and depletion charges.

FORDING

(in millions)	1996	1995	1994
Revenues	$ 915.1	$ 821.9	$ 648.7
Expenses	752.6	683.4	550.0
Operating Income	$ 162.5	$ 138.5	$ 98.7

Fording's operating income increased $24.0 million in 1996 and revenues were up $93.2 million. Income from the mines in British Columbia totalled $109.8 million in 1996, an increase of $27.2 million, or 33%, over 1995 reflecting a 12% rise in the bench-

mark coal price effective April 1, 1995 and a further increase of 4% effective April 1, 1996. In addition, there was an increase in coal sales volume of 6% to 12.1 million metric tons of cleaned coal (mtcc) at the British Columbia operations largely because of expanded production capacity. At Fording River, production rose 9% to 7.9 million mtcc due to improved technology and to productivity gains, while upgraded equipment at the mine helped contain costs. The Greenhills operation produced 4.2 million mtcc, an increase of 10% over 1995 due largely to plant expansion completed in 1995. Production at the Coal Mountain mine rose 67% to 1.8 million mtcc. Improvements to the mine's processing plant were completed in the third quarter of 1996, enabling the mine to produce at an annual rate of 2.5 million mtcc, up from a previous capacity of 1.5 million mtcc.

At the Alberta operations, operating income declined $3.1 million to $37.1 million in 1996, reflecting lower royalty revenues and reduced contribution from Mildred Lake operations. Unusually adverse weather conditions severely restricted mining productivity and increased operating costs at Mildred Lake. NYCO Minerals' operating income was unchanged at $15.5 million in 1996.

HOTELS

CP HOTELS

(in millions)	1996	1995	1994
Revenues	$ 565.6	$ 518.5	$ 479.7
Expenses	449.8	421.6	407.0
Operating Income	$ 115.8	$ 96.9	$ 72.7

Operating income and revenues from CP Hotels increased $18.9 million and $47.1 million, respectively, in 1996. Earnings growth was driven by almost all properties, but particularly the destination properties where efforts were intensified to boost business during the slow seasons. The increase in revenues was due mainly to strong revenue per available room, especially in Western Canada reflecting better market conditions and the positive effects on tourism of the low value of the Canadian dollar. Room occupancy at the owned hotels was 73.6%, compared with 73.3% in 1995. In line with the improved demand and the ability to capture high yield market segments, the average room rate at the owned hotels increased from $123.79 in 1995 to $136.23 in 1996.

NET INTEREST EXPENSE

Net interest expense of $235.3 million was up $11.1 million from 1995 due mainly to financing operations of the railway and to PanCanadian.

NON-OPERATING ITEMS

Other expenses totalled $27.0 million in 1996 and $130.7 million in 1995. In 1996 other expenses were net of a $120.4 million gain on repayment of Perpetual 4% Consolidated Debenture Stock, a $31.0 million gain on the sale of the remaining one million shares in Doubletree and a $9.0 million gain on PanCanadian's sale of its 10% interest in Syncrude. Significant other expenses in 1996 included amortization of exchange losses amounting to $54.8 million, of which about $30 million was attributable to a charge in the fourth quarter stemming from management's intention to retire U.S. $500 million earlier than scheduled. There was also a pre-tax charge of $30.0 million in 1996 relating to the railway's discounting of restructuring accruals. In 1995, other expenses included a $90.0 million corporate restructuring charge, partially offset by a $60.7 million gain on the sale of approximately four million Doubletree shares.

INCOME TAXES

Income tax expense of $286.4 million in 1996 contrasted with an income tax recovery of $195.9 million in 1995 when there were significant charges resulting in a pre-tax loss. Income taxes in 1996 were reduced by approximately $90 million through the utilization of tax losses carried forward from previous years at the railway and other losses made available in the U.S. to CPRC. PanCanadian recorded an $85 million gain on utilization of tax losses in 1996 due to income tax losses acquired on the purchase of LASMO Nova Scotia Limited in 1996 and from the income tax losses purchased from the Corporation in 1994 and 1995. This was partially offset by a $33 million charge in 1996 relating to the sale of tax losses in prior years to PanCanadian and a general tax provision of $25.0 million booked by the Corporation in the third quarter of 1996.

EQUITY IN INCOME FROM LAIDLAW

The Corporation's equity interest in Laidlaw resulted in income of $34.1 million in 1996, up $6.5 million from 1995 as new acquisitions were fully integrated during 1996.

DISCONTINUED OPERATIONS

Included in consolidated results were losses from discontinued operations amounting to $5.0 million in 1996 and $558.1 million in 1995. The 1996 loss was from Marathon Realty's operations until its sale in the third quarter. In 1995 the loss attributable to Marathon Realty comprised a $321.0 million write-down, net of $70.0 million tax benefits, and a $4.2 million loss from operations. The write-down resulted from the accelerated real estate asset disposal program. The Corporation also provided for a $30.0 million write-down of the excess of the acquisition cost over the book value of the Canadian Pacific Enterprises Limited shares acquired in 1985 that had been allocated to the assets of Marathon Realty. In addition, in 1995 discontinued operations included equity losses from Unitel of $127.3 million and a write-off of $65.6 million in respect of the Unitel investment. There was also a write-down in 1995 of $10.0 million in respect of certain trucking assets held by the Corporation.

1996 FOURTH QUARTER COMPARED WITH 1995 FOURTH QUARTER

In the fourth quarter of 1996, the Corporation recorded net income of $257.0 million, or $0.74 per Common share, which contrasted with a loss of $989.7 million, or $2.90 per share in the comparable period of 1995. Net income from continuing operations more than doubled from $126.3 million in the fourth quarter of 1995, excluding the $704.0 million restructuring charge at the railway and the $70.0 million after-tax general provision in Corporate Activities. In 1996, fourth quarter operating income of $438.2 million was 64% better than the $267.7 million recorded in 1995, excluding the railway's restructuring charge that year. Revenues of $2,475.0 million were up $387.5 million, or 19%, in the fourth quarter of 1996, reflecting mainly increased marketing activities by PanCanadian.

SUMMARIZED STATEMENT OF FOURTH QUARTER EARNINGS

(in millions, except per share amounts)	1996	1995	Increase/ (Decrease)
Revenues	$ 2,475.0	$ 2,087.5	$ 387.5
Operating income			
CP Railway	$ 187.6	$ (1,004.1)	$ 1,191.7
CP Ships	25.3	24.1	1.2
PanCanadian	170.0	58.0	112.0
Fording	45.0	40.9	4.1
CP Hotels	10.3	5.8	4.5
	438.2	(875.3)	1,313.5
Income (loss) from continuing operations	257.0	(647.7)	904.7
Discontinued operations	–	(342.0)	342.0
Net Income	$ 257.0	$ (989.7)	$ 1,246.7
Average Number of Common Shares Outstanding	346.8	342.2	4.6
Per Common Share Continuing Operations	$ 0.74	$ (1.90)	$ 2.64
Per Common Share Net Income	$ 0.74	$ (2.90)	$ 3.64

CP Railway's operating income, excluding 1995 restructuring charges, increased $48.7 million, or 35%, reflecting both expense reductions and revenue growth. The operating ratio improved from 85.7% in the fourth quarter of 1995 to 81.2% in 1996. The improvement was chiefly attributable to a 25% reduction in administrative staff, as well as cost-cutting initiatives in train, yard and shop operations. Freight revenue during the fourth quarter was $22.2 million, or 2%, higher than in 1995, with average freight rates up 7%, while overall traffic volumes decreased 5%. Canadian grain revenues benefited from a 7% rate increase in August, in accordance with the regulated maximum rate scale, and from record grain production which encouraged strong export sales in Canada. A favorable claims experience and revenue adjustments contributed to an increase in other freight revenues. However, lower Canadian coal shipments resulted from delays in the arrival of ships and severe winter conditions in Western Canada, grain traffic in the U.S. was adversely affected by reduced exports and weak mill demand, and freight rates on sulphur movements declined.

CP Ships' operating income was up $1.2 million, or 5%, over the fourth quarter of 1995 due primarily to a 13% increase in container carryings and to cost efficiencies, the latter arising from reorganized operations and the deployment of new vessels in 1996. Shipping rates declined 3% in the fourth quarter of 1996.

PanCanadian's operating earnings almost tripled in the fourth quarter of 1996, owing chiefly to a 30% increase in crude oil prices and to 12% growth in conventional oil production, the latter stemming from greater exploration and development as well as the acquisition of the Copan project, offshore Nova Scotia. Although natural gas prices increased 52% in the fourth quarter, production of natural gas declined 11% largely because of an adjustment for a property swap.

At Fording, operating income in the fourth quarter was up $4.1 million, or 10%, reflecting a 5% increase in coal selling prices, while volume growth was limited at the export mines in British Columbia due to vessel delays and harsh weather conditions.

CP Hotels' operating income increased $4.5 million, or 78%, in the fourth quarter of 1996. Strong demand, especially from international guests, contributed to continued earnings growth. Revenue per available room was up 11% reflecting higher average room rates at the owned hotels.

Other expenses declined to $71.6 million from $112.0 million in the fourth quarter of 1995 when the Corporation booked a $90.0 million provision relating to the corporate restructuring plan. Amortization of exchange losses amounted to $45.6 million in the last quarter of 1996, of which $30.0 million was due to management's intention to retire some U.S. $500 million of debt earlier than scheduled.

Income taxes in the fourth quarter of 1996 were reduced by the utilization of $60 million of tax losses carried forward from previous years by CP Railway.

The Corporation's equity earnings from Laidlaw increased $3.4 million to $13.5 million in the fourth quarter due primarily to the acquisition and integration of new businesses by Laidlaw.

In 1995, discontinued operations included a $332.0 million loss in respect of Marathon Realty and a $10.0 million write-down relating to certain trucking assets held by the Corporation.

1995 PERFORMANCE COMPARED WITH 1994

OPERATING INCOME

In 1995 there was an operating loss of $104.0 million due to restructuring charges totalling $1,143 million. The loss was in contrast with operating income of $970.2 million in 1994. Excluding the restructuring charges in 1995, operating income showed improvement of $68.8 million, attributable mainly to CP Railway, CP Hotels and Fording, partially offset by a decrease from PanCanadian. Consolidated revenues amounted to $7,550.5 million in 1995, up $957.6 million, or 15% over 1994, reflecting increases from most businesses.

TRANSPORTATION

Transportation revenues increased $421.5 million to $4,608.4 million in 1995 due primarily to the Cast acquisition, while operating income of $391.7 million in 1994 contrasted with a loss of $683.8 million in 1995 when there were significant restructuring charges at the railway.

In 1995, CP Railway's operating revenues increased $85.6 million to $3,779.4 million and operating earnings, excluding restructuring charges, increased $76.6 million to $382.3 million thereby improving the operating expense ratio from 91.7% in 1994 to 89.9% in 1995. A 47-day strike in 1994 disrupted the railway's U.S.-based Soo Line operations in the third quarter, while in 1995 the railway's Canadian division was adversely affected by concurrent strikes on the rail network and at the ports of Montreal and Vancouver in March. Freight traffic improved 4%, while average revenue per revenue ton mile declined 1%. Excluding restructuring charges, CP Railway's operating expenses increased only $9.0 million in 1995, with the largest increases attributable to higher labor rates, locomotive repairs, locomotive leases and fuel costs.

CP Ships' revenues increased $382.6 million, or 68%. Despite a positive contribution from Cast, operating income from CP Ships declined $9.1 million, attributable mainly to a dockworkers' strike at the Port of Montreal in March and the resultant disruption of service. Container carryings increased by 63%

in 1995 due to the Cast acquisition and to expanded capacity, which also produced higher fixed costs, fuel and other overhead costs.

ENERGY

Energy revenues increased $552.6 million, while operating income declined $22.9 million in 1995.

At PanCanadian, revenues increased $379.4 million, or 26%, but operating income declined $62.7 million. Despite higher volumes and improved prices for oil, the decrease in operating income was attributable mainly to lower gas prices and higher depletion and depreciation charges. Production levels increased 8% for PanCanadian's conventional oil and 18% for natural gas, reflecting PanCanadian's aggressive exploration and development strategy. Weighted average prices of natural gas, prior to hedging, declined 32% to $1.25 per mcf, mostly reflecting oversupply conditions. Including hedging, average natural gas prices fell 34% to $1.26 per mcf. Weighted average prices for conventional oil prior to hedging increased 16% to $20.17 per barrel, reflecting higher benchmark prices and stronger prices for PanCanadian's product mix. Including the hedging program, conventional oil prices increased 16% to $20.03 per barrel. The hedging program did not have a material effect on revenues. The resale of third-party produced crude oil, natural gas and natural gas liquids, which began in the second quarter of 1994, increased revenues by $283.7 million in 1995, reflecting not only the full year's contribution from this source but also the acquisition in 1995 of an interest in a gas and electricity marketing partnership. The cost of these products purchased for resale was up $269.6 million in 1995.

Fording's operating income increased $39.8 million and revenues were up $173.2 million, due to an increase in coal sales of 24% to 11.4 million mtcc at the British Columbia operations, and to a 12% rise in the benchmark coal price effective April 1, 1995. Operating income for the B.C. operations almost doubled 1994 levels. NYCO Minerals' operating income increased 10%, reflecting a 6% increase in sales of wollastonite.

HOTELS

Operating income and revenues from CP Hotels increased $24.2 million and $38.8 million, respectively, in 1995. An improved economy, coupled with the favorable effects of the low value of the Canadian dollar on tourism in Canada, as well as stronger occupancy and room rates contributed to the better results in 1995.

NET INTEREST EXPENSE

Net interest expense of $224.2 million was down $17.2 million from 1994, due mainly to higher average cash balances for the Corporation.

NON-OPERATING ITEMS

Other expenses totalling $130.7 million in 1995 were up from $66.9 million in 1994. Excluding the $90 million corporate restructuring charge and a $60.7 million gain on sale of approximately four million Doubletree shares in 1995, other expenses increased over 1994 due mainly to exchange losses.

EQUITY IN INCOME FROM LAIDLAW

The Corporation's equity interest in Laidlaw resulted in income of $27.6 million in 1995, up from $13.9 million in 1994 largely reflecting increased earnings from acquisitions.

DISCONTINUED OPERATIONS

Included in consolidated results were losses from discontinued operations amounting to $558.1 million in 1995 and $71.8 million in 1994. In 1995 the loss consisted primarily of $355.2 million from Marathon Realty and equity losses in respect of Unitel totalling $192.9 million. There was also a write-down in 1995 of $10.0 million in respect of certain trucking assets held by the Corporation. The loss from discontinued operations in 1994 comprised losses of $28.1 million

from Marathon Realty, $114.8 million in respect of Unitel and $16.7 million relating to the trucking operations sold in September 1994. These losses were partially offset by an $87.8 million net gain from an exchangeable term loan agreement and related disposition rights agreement pertaining to approximately 6.3 million United Dominion Industries Limited shares held by the Corporation.

THE EFFECTS OF CHANGING PRICE LEVELS

Recent inflation recorded by the seven largest industrial economies is at a thirty-year low. The actual rate of inflation, after adjusting for technology and quality improvements, may be close to zero in many countries. While inflation has not had a material effect on operations, replacement cost and related depreciation expense, on a replacement cost basis, would be substantially higher than the historical cost reported in the financial statements. However, the businesses of the Corporation have prudently undertaken capital expenditures to maintain and upgrade plant and facilities and, therefore, generally stand to benefit from improvement in technology and productivity gains as a result of these expenditures.

Consolidated Assets
($ millions)

LIQUIDITY AND CAPITAL RESOURCES

Consolidated assets declined from $16,037.9 million at year-end 1995 to $15,215.9 million at December 31, 1996, reflecting the sale of the Corporation's real estate assets in the third quarter of 1996. The sale together with the Corporation's reorganization contributed to a $1.5 billion reduction in net debt since year-end 1995. The Corporation's net debt:equity ratio improved from 40:60 at year-end 1995 to 28:72 at December 31, 1996.

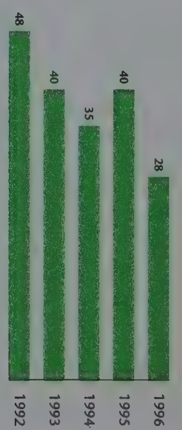
Cash flow, before changes in non-cash working capital and other items, amounted to $1.9 billion in 1996, up $369.5 million or 24% over 1995, reflecting higher net income before gains and other non-cash charges. PanCanadian's cash flow rose 24% to $1,000.8 million and other cash flow gains were recorded by CP Railway, up 32% to $564.2 million, CP Ships up 37% to $134.8 million, Fording up 13% to $160.0 million, and CP Hotels up 57% to $84.4 million. After changes in non-cash working capital, restructuring accruals and other non-cash items, cash from operations totalled $1,499.5 million in 1996, up $185.9 million, or 14% over 1995. However, 1996 financing and investing activities resulted in cash outflows of $662.6 million and $819.0 million, respectively, and dividend payments were $179.9 million, thereby reducing cash on hand over the period by $162.0 million to $852.6 million at December 31, 1996.

DIVIDENDS

During the last three years the Corporation declared quarterly dividends of eight cents per Common share until the final quarter of 1995, when the rate was raised to 12 cents payable in January 1996. Dividends paid amounted to $108.1 million in 1994, $109.8 million in 1995 and $165.2 million in 1996. The increase in 1996 was attributable to the net issuance of 4.6 million Common shares, of which 3.2 million was in respect of the Corporate reorganization, and to the four cent increase in the dividend rate.

STOCK REPURCHASE PROGRAM

On July 24, 1996 the Corporation announced a Normal Course Issuer Bid to repurchase up to 10 million of its Common shares, representing about 3% of its common shares then outstanding. Purchases may be made at market prices on the Toronto, Montreal, Vancouver and Alberta stock exchanges over the 12 months following regulatory approvals which were granted in mid-August. Purchases under the program began near year-end 1996 and the Corporation can purchase for cancellation up to 10 million Common shares by August 18, 1997.



Net Debt as a % of Net Debt and Equity

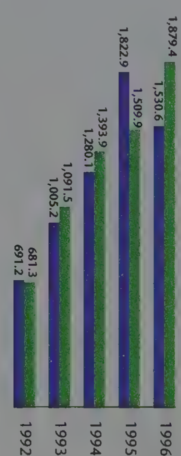
FINANCING ACTIVITIES

Among the Corporation's continuing operations, debt repayment, net of refinancings, amounted to $615.9 million in 1996, including $105.9 million of Perpetual 4% Consolidated Debenture Stock and $531.9 million repayment by the Corporate Group. Mainly as a result of the reorganization and conversions and transfers by former holders of Preference Shares and 4% Consolidated Debenture Stock into Common shares of the Corporation, Preference Shares totalling $14.9 million were redeemed while additional Common shares of $46.7 million were issued in 1996.

INVESTING ACTIVITIES

During 1996, additions to properties amounted to $1,530.6 million with expenditures of $775.6 million by PanCanadian, $445.0 million by CP Railway, $159.8 million by Fording and $99.1 million by CP Ships. Capital spending at PanCanadian included $645.4 million on exploration and development in Canada, which resulted in the drilling of 1,008 oil and gas and 21 service wells for a success ratio of 85%. The purchase of 1,400 covered hopper cars for $102.1 million, as well as track-related improvement and replacement accounted for most of CP Railway's capital expenditures. Fording's spending was mainly for expansion of its coal operations in British Columbia and development of its new wollastonite mine in Mexico, and CP Ships added two refurbished ice-strengthened container vessels to modernize its fleet.

Spending on business acquisitions and investments amounted to $84.7 million, of which $60.0 million related to PanCanadian's acquisition in January 1996 of an oil-producing field offshore Nova Scotia.

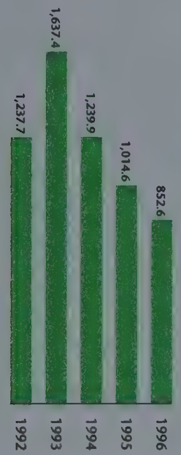


Capital Expenditures and Cash Flow
($ millions)

Capital Expenditures
Cash Flow

Proceeds from asset sales totalled $806.9 million in 1996 mainly in respect of the sale of PanCanadian's working interest in Syncrude for proceeds of approximately $385 million, the disposal of essentially all of Marathon's real estate assets for net proceeds of

$328.0 million, after assumption of all debt by the purchaser, and the sale of the Doubletree shares for $40.6 million.



Cash on Hand December 31
($ millions)

FUTURE TRENDS, COMMITMENTS AND RISKS

The Corporation will continue to strive for enhanced shareholder returns in 1997 through stringent cost control and internal growth at most of the subsidiaries. The Corporation is expecting another good year for operating results in 1997, although areas of concern are the eastern railway network, which is not earning an adequate rate of return, and the recent application by the Canadian Bureau of Competition Policy seeking an order requiring the Corporation to divest its investment in the Cast container shipping line.

CP Railway will continue to focus on cost-cutting initiatives and rationalizing the infrastructure and is expected to benefit from labor efficiencies under new agreements. The last quarter of 1996 witnessed on-going efforts to reduce operating trackage by up to 4,400 miles, or 25%, over three years as announced in August 1996. On October 30, the St. Lawrence & Hudson Railway (St.L&H) leased to a regional railway company 342 miles of line in the Ottawa Valley. Rationalization efforts continued elsewhere on the system with agreements to sell 1,143 miles and lease another 383 miles of line in the mid-west U.S. and North Dakota. The sale is expected to produce proceeds of approximately $350 million. These initiatives will allow the company to focus on its high-density core network. Other initiatives are to modernize the fleet to reduce fuel costs and equipment rents, restructure the grain transportation system, upgrade the information system and computer-based technologies, establish a direct transportation link between Vancouver and Chicago for import/export traffic, and convert more locomotives to alternate current power. CP Railway expects to benefit from the full realization of its cost-cutting initiatives, as well as the on-going efforts to rationalize track across the system and is aggressively pursuing new initiatives to cut costs.

The North American export market is expected to be relatively stable and trade volumes at Canada Maritime and Cast are expected to remain firm in 1997.

In December 1996, the Corporation signed a letter of intent to acquire the container shipping line of Lykes Lines based in Tampa, Florida. The acquisition is subject to the settlement of a number of business issues and requires various regulatory approvals.

Late in 1996 the Canadian Bureau of Competition Policy instituted proceedings against the Corporation seeking an order from the Competition Tribunal that the Cast investment be divested. The March 30, 1995 Cast acquisition had already been approved in advance of closing by another Federal body, the National Transportation Agency (NTA). The Corporation intends to vigorously oppose the Canadian Bureau of Competition Policy's application and is confident that the Competition Tribunal will reach the same decision as the NTA, that the Cast acquisition does not raise competition concerns.

PanCanadian expects stronger results in 1997 and plans to keep up its program of accelerated development through continued high levels of capital spending with an emphasis on production of conventional crude oil. PanCanadian expects to benefit from a broadening of its business lines through such projects

as the newly completed expansion of its natural gas liquids extraction facilities at Empress and the acquisition of the minority interest in National Gas & Electric L.P. Also, large hedging losses, which were incurred in 1996, are not expected to be repeated in 1997. While oil prices are anticipated to recede from the unexpectedly high levels reached in 1996, natural gas prices are forecast to improve as part of a broader long term recovery from depressed levels. In December 1996 PanCanadian and NOVA Gas Transmission Limited reached an agreement which should reduce PanCanadian's gas transportation costs by $20 million to $30 million annually, starting in 1998. Also in December PanCanadian offered for sale a package of non-core land assets with an estimated daily production capacity of 2,400 barrels of oil and natural gas liquids and 16 million cubic feet of natural gas, with proceeds expected to be used for new exploration and production activities.

Expanded capacity, modernized operations and increased production at the coal mines in British Columbia are expected to increase earnings at Fording in 1997. Export sales should grow due to demand from Brazil and the Pacific Rim markets, except Japan. In December 1996, Fording concluded coal price negotiations with the Japanese consortium providing for an agreed rollover of the 1996 benchmark price of U.S. $53.30 per tonne on top quality coking coal, for the coal year beginning April 1, 1997. The expected start-up in the fourth quarter of 1997 of commercial operations of wollastonite reserves in northwestern Mexico should contribute to earnings beginning in 1998.

With continued strength in the travel market anticipated in 1997, CP Hotels projects improvement in operating results. Demand is forecast to be especially strong in the higher yield international market resulting in expected improvement in room rates in 1997. In addition, new initiatives are under way to enhance revenues, including a new computer reservation system, marketing efforts in emerging markets in Brazil, South Korea and Taiwan, and the introduction of work centres in the major business hotels.

Early in 1997 Laidlaw announced two transactions, valued in excess of U.S. $2 billion, that will substantially enlarge its emergency healthcare business and strengthen and separate its environmental services business. Laidlaw plans to merge its MedTrans ambulance services unit with American Medical Response Inc. The transaction is expected to be completed in the first quarter of 1997. Combined, the two companies are expected to have a 14% market share of the $10 billion healthcare transportation industry. Laidlaw has also signed a letter of intent to sell its Environmental Services unit to Rollins Environmental Services Inc. with each company contributing their environmental service assets and businesses into a combined operation. Laidlaw will own 66% of the equity in the combined operation, which is expected to generate in excess of U.S. $900 million in annual revenue. The transaction is expected to close in April 1997.

Consolidated capital expenditures of $2.0 billion are planned in 1997, representing an increase of approximately $500 million from 1996 levels. All businesses, except CP Ships, are expecting to increase their level of spending. Most of the budgeted 1997 capital expenditures are for improvement and expansion projects at PanCanadian and CP Railway, with the latter also including a considerable sum for maintenance of the railway infrastructure. Continued high exploration and development activity at PanCanadian should result in capital expenditures of approximately $1 billion. While no new acquisitions are planned, PanCanadian will continue an aggressive drilling program which should exceed 1996 levels. Capital expenditures at CP Railway of approximately $600 million are to be mainly comprised of basic track work, additions to the car fleet (750 new covered hoppers) and locomotive power (40 new AC Traction locomotives), and the construction of new commercial facilities. Early in 1997, Canada Maritime contracted for two new 2,650 teu containers ships for delivery in 1998.

Most of Fording Coal's planned spending is for the Pilares wollastonite development project in Mexico and for maintenance work at the coal mines in British Columbia. CP Hotels will be concentrating on profit improving and expansion projects at its existing hotels.

At year-end 1996, commitments for capital expenditures for the year 1997 amounted to $163.4 million, mainly for the Pilares Project being undertaken by Fording in Mexico. Also, at December 31, 1996, minimum payments under operating leases and gas pipeline transportation agreements were estimated at $1,489.6 million. Unused lines of credit for short-term and long-term financing available to the Corporation and its businesses totalled $1,122.6 million at December 31, 1996 on which interest rates vary with bank prime or money market rates.

The following table illustrates the estimated effect on consolidated 1997 earnings of changes, under current conditions, in the foreign exchange value of the Canadian dollar and prices of oil, natural gas and coal.

SENSITIVITY OF CONSOLIDATED 1997 NET INCOME

	Average Rates/ Prices Assumed	Effect on Net Income Before Hedging	Effect on Net Income After Hedging
		(in millions)	
U.S. 1 cent decrease in the value of the Canadian dollar	U.S. $0.74	$ 27.1	$ 17.4
U.S. $1.00 per barrel increase in the price of West Texas Intermediate crude oil			
– PanCanadian	U.S. $20.00	$ 33.9	$ 20.9
– The Corporation's other businesses	various	$ (8.0)	$ (8.0)
10 cent per mcf increase in natural gas prices	$ 1.65	$ 14.6	$ 14.6
U.S. $1.00 per tonne increase in coal prices	U.S. $53.30	$ 6.0	$ 6.0

In order to reduce risks of unfavourable changes in currency, interest rates and commodity prices, the Corporation engages in various hedging strategies, currency swaps, interest rate agreements and forward exchange contracts.

A series of forward foreign currency exchange, interest rate swap and cross-currency interest rate swap transactions have been entered into with respect to PanCanadian's 10.55% Debentures due 2000. PanCanadian has also entered into interest rate and cross-currency interest rate swaps relating to medium-term notes it holds. In addition, the Corporation has entered into approximately $1.4 billion of interest rate swap agreements, maturing in years 1997 to 2005, to revise the effective interest payable on certain inter-company debt.

The Corporation is exposed to credit losses in the event of non-performance by counterparties to financial instruments. However, the Corporation does not anticipate such non-performance because of dealing with counterparties of high credit quality. In addition, the Corporation does not believe that there are any significant concentrations of credit risk.

As of December 31, 1996, net exposure to derivative instruments amounted to approximately $100 million (see note 13 on pages 63 and 64 of the Annual Report to Shareholders for more detail).

At December 31, 1996, foreign currency long term debt, denominated principally in U.S. dollars, amounted to $2,347.1 million (1995 – $2,853.4 million).

Annual maturities and sinking fund requirements for each of the five years following 1996 are: 1997 – $786.7 million; 1998 – $111.5 million; 1999 – $75.0 million; 2000 – $189.9 million, 2001- $403.1 million.

It is management's intention to repay in 1997 U.S. $500 million of Canadian Pacific Enterprises Limited's bank term loans due 1999-2000.

PanCanadian hedges a portion of its production, subject to established limits of 50% of projected crude oil, natural gas and natural gas liquids volumes for the current fiscal year and the two years immediately

following. Thereafter, up to a maximum of five years beyond the current fiscal year, the authorized limit is reduced to 25%. At year-end 1996, PanCanadian sold forward approximately 16.6 million barrels of crude oil for delivery in 1997 at an average price per barrel of U.S. $18.52. The unrealized loss at December 31, 1996 related to these sales was U.S. $83.2 million. PanCanadian has also hedged a price differential between West Texas Intermediate crude oil and certain grades of heavy oil of U.S. $4.37 per barrel on 2.2 million barrels for each of the years, 1997 and 1998. PanCanadian does not anticipate any significant adverse impact if it is unable to produce crude oil to meet hedge commitments because of the proportion of its production that can be hedged and the ability to close out most contracts on a daily basis. With regard to projected revenues generated from PanCanadian's sales of natural gas, crude oil and natural gas liquids, where pricing is determined on the basis of the U.S. dollar, 50% may be hedged into Canadian dollars for the current fiscal year and the two years immediately following, reduced to 25% thereafter up to a maximum of five years beyond the current fiscal year. At December 31, 1996, PanCanadian sold forward U.S. dollars totalling $2.4 billion for the years 1997 through 2002, at an average exchange rate of $0.7258 (U.S. dollar per Canadian dollar). The unrealized gain at December 31, 1996 related to these sales amounted to $83.8 million. With respect to Fording, export coal sales are denominated in U.S. dollars, while the Canadian dollar value received from these contracts is recorded as revenue from coal sales. At December 31, 1996, forward exchange contracts totalling U.S. $372 million were in place for 1997 with another U.S. $914 million of such contracts for 1998 through 2001.

Higher cash flow in 1997 and proceeds from asset sales are expected to be the main sources of funds for the Corporation's capital programs, the buy-back of Common shares and for further debt repayment. Funding for PanCanadian's capital program is expected to be provided from cash flow, while CP Railway's investment program is expected to be funded from cash flow and from proceeds generated from line disposals. Consolidated cash levels are projected to decline in 1997.

LABOR RELATIONS

Three contracts affecting CP Railway's Canadian operations expired at the end of 1996 affecting some 2,600 employees with the remaining four agreements in effect through December 31, 1997. With respect to the railway's operations in the United States negotiations are being conducted outside of the national negotiations producing settlements with two of 16 collective bargaining units at Soo Line Railroad. The St.L&H has approached its Canadian unions to negotiate new agreements compatible with regional agreements elsewhere in Canada. Similar negotiations are under way on the Delaware and Hudson Railroad.

At the Port of Montreal, contracts with the dock workers employed by the Maritime Employers' Association are in place until December 1997.

Among the Corporation's other businesses, Fording renewed a five-year labor agreement expiring in April 2001 at Fording River, its largest facility. The present Coal Mountain agreement covers a five-year term ending December 31, 1999 and it may be extended until December 31, 2001, subject to re-negotiation of provisions relating to pay and benefits. At NYCO Minerals, a five-year agreement was ratified in 1996 and is in effect until 2001. During 1997, seven collective agreements at CP Hotels will expire with negotiations either under way or to be undertaken.

ENVIRONMENTAL PROTECTION

The Corporation's operations are and will continue to be affected by federal, provincial, state and local laws and regulations regarding the protection of the environment. It is not anticipated that the competitive positions of the Corporation's businesses will be adversely affected within their respective industries by changes to existing laws and regulations since all industry members are subject to the same legislative requirements. The Corporation's businesses have policies and procedures in place which support a comprehensive environmental management system that includes audits, legal compliance and reporting.

Based on comprehensive environmental investigations at various sites across Canada and the U.S., CP Railway recorded a $144 million pre-tax charge to earnings in 1995 to cover the cost of an environmental remediation program over the next ten years. Sites were classified according to their known environmental conditions as well as their past use and level of railway activity. Estimated costs cover the removal of hydrocarbons in soil and on groundwater tables, and hydrocarbons dissolved in groundwater, but do not include the removal of heavy metals. CP Railway incurred expenditures of approximately $18 million in 1996 relating to environmental management, comprising site investigation and remediation, waste disposal and facility improvements, and ongoing development of policies and procedures. Approximately $11 million of these expenditures related to the environmental remediation program provided for in 1995.

PanCanadian has implemented policies and procedures which support a comprehensive environmental management system, including impact assessments, audits, compliance reporting, employee training programs and regulatory updates. PanCanadian is participating in the federal government's challenge program to voluntarily reduce greenhouse gas emissions. Emission reductions over the past year were achieved in conjunction with planned capital spending and production optimization projects therefore minimizing the fiscal impact. PanCanadian expects that emission reductions can continue to be made under a voluntary program with manageable fiscal impact. No material capital expenditures relating to environmental control for existing or new facilities are expected in the foreseeable future. The phasing-in period for any new legislation is expected to provide sufficient time for PanCanadian to prepare for any increase in operating costs and capital investment requirements.

Laidlaw, in the normal course of its business, expends funds for environmental protection and remediation, but does not expect these expenditures to have a materially adverse effect on its financial condition or results of operations.

There are not expected to be significant expenditures relating to environmental control on existing or new facilities in the foreseeable future among the Corporation's other businesses.

LITIGATION

As to be expected from the normal course of business activity, the Corporation and its subsidiaries are occasionally involved in litigation incidental to their respective businesses. Management believes that it has taken the necessary provisions in the preparation of its financial statements, with respect to such litigation.

STATEMENT OF CONSOLIDATED INCOME

For the Year ended December 31

(in millions, except amounts per share)	1996	1995	1994
Revenues	**$ 8,684.0**	$ 7,550.5	$ 6,592.9
Costs and Expenses			
Cost of goods sold and services	**5,339.9**	4,644.0	3,964.0
Selling, general and administrative	**1,008.2**	2,146.9	915.5
Depreciation, depletion and amortization	**941.1**	863.6	743.2
	7,289.2	7,654.5	5,622.7
Operating income (loss) (Note 2)	**1,394.8**	(104.0)	970.2
Interest expense, net (Note 3)	**235.3**	224.2	241.4
Non-operating items (Note 4)	**27.0**	130.7	66.9
Income (loss) before income taxes, minority interest and equity in income	**1,132.5**	(458.9)	661.9
Income tax expense (recovery) (Note 5)	**286.4**	(195.9)	173.2
Minority interest share of income of subsidiaries	**46.1**	30.0	37.7
Income (loss) before equity in income	**800.0**	(293.0)	451.0
Equity in income of Laidlaw Inc.	**34.1**	27.6	13.9
Income (loss) from continuing operations (Note 2)	**834.1**	(265.4)	464.9
Discontinued operations (Note 6)	**(5.0)**	(558.1)	(71.8)
Net income (loss)	**$ 829.1**	$ (823.5)	$ 393.1
Average number of Common Shares outstanding	**344.4**	342.1	337.5
Earnings (loss) per Common Share			
Income (loss) from continuing operations	**$ 2.42**	$ (0.78)	$ 1.38
Net income (loss)	**$ 2.41**	$ (2.41)	$ 1.16

STATEMENT OF CONSOLIDATED RETAINED INCOME

For the Year ended December 31

(in millions, except amounts per share)	1996	1995	1994
Balance, January 1	**$ 2,552.1**	$ 3,499.3	$ 3,216.1
Net income (loss)	**829.1**	(823.5)	393.1
	3,381.2	2,675.8	3,609.2
DIVIDENDS			
4% Preference Shares	**0.3**	0.5	0.5
Common Shares (per share: 1996-$0.48; 1995-$0.36; 1994-$0.32)	**165.5**	123.2	109.4
Total dividends	**165.8**	123.7	109.9
Balance, December 31	**$ 3,215.4**	$ 2,552.1	$ 3,499.3

See Notes to Consolidated Financial Statements.

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

For the Year ended December 31

(in millions)	1996	1995	1994
OPERATING ACTIVITIES			
Income (loss) from continuing operations	$ 834.1	$ (265.4)	$ 464.9
Depreciation, depletion and amortization	971.1	863.6	743.2
Deferred income tax expense (recovery)	192.4	(249.9)	146.4
Minority interest share of income of subsidiaries	46.1	30.0	37.7
Equity in income of Laidlaw Inc.	(34.1)	(27.6)	(13.9)
Write-down of assets and restructuring costs	–	1,233.0	–
Amortization of exchange losses (gains)	54.8	(10.9)	15.3
Losses (gains) from sales of businesses, investments and properties	(64.6)	(62.9)	0.3
Gain on repayment of Perpetual 4% Consolidated Debenture Stock	(120.4)	–	–
Cash flow	1,879.4	1,509.9	1,393.9
Reduction in restructuring accruals, net	(231.5)	(83.9)	(86.0)
Other operating activities	(49.7)	7.2	(66.7)
Increase in non-cash working capital balances relating to continuing operations (Note 7)	(133.8)	(119.3)	(6.1)
Cash from continuing operations	1,464.4	1,313.9	1,235.1
Cash from (used by) discontinued operations	35.1	(0.3)	67.2
Total cash from operations	1,499.5	1,313.6	1,302.3
DIVIDENDS			
Paid to shareholders of the Corporation	(165.2)	(109.8)	(108.1)
Paid to minority shareholders of subsidiaries	(14.7)	(15.1)	(15.0)
	(179.9)	(124.9)	(123.1)
FINANCING ACTIVITIES			
Issuance of long term debt	216.7	810.5	210.8
Repayment of long term debt	(832.6)	(626.5)	(1,288.1)
Issuance of shares by subsidiaries	5.4	5.0	1.9
Issuance of Common Shares by the Corporation, net	46.7	11.1	489.0
Redemption of Preference Shares by the Corporation	(14.9)	–	–
Other financing activities	20.6	17.2	148.6
Discontinued operations (Note 6)	(104.5)	(104.7)	(312.3)
	(662.6)	112.6	(750.1)
INVESTING ACTIVITIES			
Business acquisitions and investments (Note 8)	(84.7)	(104.1)	(23.8)
Additions to properties (Note 2)	(1,530.6)	(1,822.9)	(1,280.1)
Sales of businesses, investments and properties	806.9	282.3	152.3
Other investing activities	(76.0)	(46.9)	200.3
Discontinued operations (Note 6)	65.4	165.0	124.7
	(819.0)	(1,526.6)	(826.6)
CASH POSITION*			
Decrease in cash	(162.0)	(225.3)	(397.5)
Cash at beginning of year	1,014.6	1,239.9	1,637.4
Cash at end of year	$ 852.6	$ 1,014.6	$ 1,239.9

*Cash comprises cash and temporary investments net of bank loans.

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

December 31

ASSETS (in millions)	1996	1995
CURRENT ASSETS		
Cash and temporary investments	$ 981.2	$ 1,118.8
Accounts receivable	1,310.2	960.3
Inventories (Note 9)	379.1	360.3
	2,670.5	2,439.4
INVESTMENTS (NOTE 10)	881.1	877.5
PROPERTIES, AT COST (NOTE 11)		
Transportation	9,060.4	8,478.2
Energy	8,538.5	8,142.0
Hotels	1,262.9	1,214.2
Other	282.3	95.9
Discontinued Operations	–	2,078.9
	19,144.1	20,009.2
Less: Accumulated depreciation, depletion and amortization	8,072.2	7,870.9
	11,071.9	12,138.3
OTHER ASSETS AND DEFERRED CHARGES (NOTE 12)	592.4	582.7
	$ 15,215.9	$ 16,037.9

AUDITORS' REPORT

TO THE SHAREHOLDERS
OF CANADIAN PACIFIC LIMITED

We have audited the consolidated balance sheets of Canadian Pacific Limited as at December 31, 1996 and 1995 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for each of the three years in the period ended December 31, 1996. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Canadian Pacific Limited as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1996 in accordance with generally accepted accounting principles in Canada.

Price Waterhouse

Chartered Accountants
Calgary, Alberta
February 7, 1997

LIABILITIES AND SHAREHOLDERS' EQUITY (in millions)	1996	1995
CURRENT LIABILITIES		
Bank loans	$ 128.6	$ 104.2
Accounts payable and accrued liabilities	1,943.3	1,846.8
Income and other taxes payable	172.1	148.2
Dividends payable	45.9	45.3
Long term debt maturing within one year (Note 13)	786.7	682.3
	3,076.6	2,826.8
DEFERRED LIABILITIES (NOTE 14)	886.8	868.7
LONG TERM DEBT (NOTE 13)	2,655.1	4,414.1
DEFERRED INCOME TAXES	1,377.3	1,287.2
DEFERRED INCOME CREDITS (NOTE 15)	493.9	483.3
MINORITY SHAREHOLDERS' INTEREST IN SUBSIDIARY COMPANIES (NOTE 16)	321.6	311.1
SHAREHOLDERS' EQUITY (NOTE 17)		
Preference Shares	–	14.9
Common Shares	1,814.4	1,767.7
Premium on securities	1,153.4	1,153.4
Other paid-in surplus	153.8	154.1
Foreign currency translation adjustments	67.6	204.5
Retained income	3,215.4	2,552.1
	6,404.6	5,846.7
COMMITMENTS AND CONTINGENCIES (NOTE 20)		
	$ 15,215.9	$ 16,037.9

See Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

David P. O'Brien

D.P. O'Brien, Director

S.A. Milner, Director

1. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of Canadian Pacific Limited (the "Corporation") and all of its subsidiaries ("CP Limited"). All significant inter-company transactions and balances have been eliminated.

The principal companies and divisions included in each business segment are as follows:

December 31	1996	1995	1994
	Percentage Ownership		
TRANSPORTATION			
CP Railway (previously a division of the Corporation)	**100.0%**	–%	–%
Soo Line Corporation	**100.0**	100.0	100.0
St. Lawrence & Hudson Railway Company Limited	**100.0**	–	–
Delaware and Hudson Railway Company, Inc.	**100.0**	100.0	100.0
CP Ships			
Canada Maritime Limited	**100.0**	100.0	100.0
Cast group	**100.0**	100.0	–
Racine Terminal (Montreal) Limited	**100.0**	100.0	100.0
ENERGY			
PanCanadian Petroleum Limited	**86.6**	86.7	86.8
Fording Inc.			
Fording Coal Limited	**100.0**	100.0	100.0
NYCO Minerals, Inc.	**100.0**	100.0	100.0
HOTELS			
Canadian Pacific Hotels & Resorts Inc.	**100.0**	100.0	100.0

CP Limited accounts for its investment in Laidlaw Inc. using the equity method. A significant part of CP Limited's exploration, development, production and marketing of oil and gas is carried out as joint ventures and partnerships. These investments are accounted for through proportional consolidation.

The major differences between Canadian and United States generally accepted accounting principles, in so far as they apply to CP Limited, are described under Supplementary Data (see page 68).

Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

REVENUE RECOGNITION

TRANSPORTATION: Railway freight revenues are recognized upon the completion of movements.

Revenues from shipping operations, costs directly attributable to loaded container movements and vessel costs are accounted for on the basis of voyages completed in the period.

ENERGY: Revenues from oil and gas operations are recognized at the time the oil is sold or natural gas is delivered.

Coal sales revenues are recognized when the coal has been loaded and has departed the shipping location.

HOTELS: Revenues from hotel operations are recognized when services are provided and ultimate collection is reasonably assured.

EARNINGS PER COMMON SHARE

Earnings per Common Share are calculated after providing for dividends on the Corporation's Preference Shares using the weighted average number of Common Shares outstanding during the year.

FOREIGN CURRENCY TRANSLATION

Foreign currency assets and liabilities of CP Limited's operations, other than through self-sustained foreign subsidiaries, are translated into Canadian dollars at the year-end exchange rate for monetary items and at the historical exchange rates for non-monetary ones. Foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions except for provisions for depreciation and depletion which are translated on the same basis as the related assets. With the exception of unrealized gains and losses on long term monetary assets and liabilities, which are being amortized to income over the remaining lives of the related items, foreign currency gains and losses are included in income immediately.

The accounts of CP Limited's self-sustained foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average exchange rates in effect for the year for revenues and expenses. Exchange gains or losses arising from translation are deferred and included under Shareholders' Equity as Foreign Currency Translation Adjustments. Also included as a foreign currency translation adjustment is the exchange credit arising from translation of CP Railway's Perpetual 4% Consolidated Debenture Stock.

POST RETIREMENT BENEFITS

For defined benefit plans, pension costs are actuarially determined on the basis of management's best estimates using the projected benefit method prorated over the service lives of employees. Pension expense includes the cost of pension benefits earned during the current year and the amortization of adjustments arising from pension plan amendments, experience gains and losses and changes in assumptions. The amortization period covers the expected average remaining service lives of employees covered by the various plans. The difference between the market related value of pension fund assets and the present value of accrued pension benefits, at the date the present accounting policy was adopted, is also being amortized over the expected average remaining service lives of plan employees.

For defined contribution plans, pension costs generally equal plan contributions made during the current year.

For post retirement health care and life insurance benefits, costs are based on the annual insurance premium paid to provide these benefits.

INVENTORIES

Rail materials and supplies are valued at the lower of average cost and replacement cost.

Finished goods are valued at the lower of average cost and net realizable value.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

PROPERTIES

TRANSPORTATION: Accounting for railway properties is carried out in accordance with the Uniform Classification of Accounts issued by the Canadian Transportation Agency in Canada and in accordance with Surface Transportation Board rules in the United States. Fixed asset additions and major renewals are recorded at cost. Maintenance and repairs are charged to expense as incurred with the exception of material costs of programmed track replacement in Canada which are capitalized. When depreciable property is retired or otherwise disposed of in the normal course of business, the book value, less salvage, is charged to accumulated depreciation.

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property, except for rail and other track material in the United States which is based on usage. For railway properties, the rates used by CP Railway are as authorized by the Canadian Transportation Agency of Canada for Canadian Pacific Railway Company and St. Lawrence & Hudson Railway Company Limited, and by the Surface Transportation Board for the Soo Line Railroad Company (a wholly-owned subsidiary of Soo Line Corporation) and the Delaware and Hudson Railway Company, Inc.

Equipment under capital lease is included in properties and depreciated over the period of expected use.

Estimated service lives used for principal categories of transportation properties are as follows:

	Years
Railway	
Diesel locomotives	27 to 50
Freight cars	22 to 42
Ties	28 to 57
Rails – in first position	21 to 23
– in other than first position	27 to 62
Ships	20

ENERGY: CP Limited follows the full cost method of accounting for oil and gas properties, whereby all costs relating to the exploration for, and the development of, conventional crude oil and natural gas reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each cost centre are depleted and depreciated using the unit of production method, based on estimated proved reserves, with net production and reserves volumes of natural gas converted to equivalent energy units of crude oil. Proceeds from disposal of properties are normally deducted from the full cost pool without recognition of gain or loss.

Costs of exploration in new cost centres, together with related land costs, are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or if impairment has occurred.

In determining the depletion and depreciation provisions for conventional crude oil and natural gas assets, CP Limited includes any excess of the net book value of those oil and natural gas assets over the unescalated, undiscounted future net operating revenues from its proved oil and natural gas reserves for each cost centre (ceiling test). A second ceiling test calculation is conducted on an enterprise basis, by including in the depletion and depreciation provisions any excess of the net book value of conventional oil and natural gas assets for all cost centres over the unescalated, undiscounted future net operating revenues from proved oil and natural gas reserves, less future general and administrative expenses, financing costs and income taxes. The ceiling test calculations utilize CP Limited's weighted average product prices prevailing at year end.

Depreciation of conventional crude oil and natural gas plant, production and other equipment is provided for using the unit of production method. Natural gas liquids extraction facilities are depreciated on a straight-line basis over the estimated service lives of the assets.

Estimated future dismantlement and site restoration costs of conventional crude oil and natural gas

assets are provided for using the unit of production method. Such costs for extraction facilities of natural gas liquids are provided for over the estimated service lives of the assets. Expenditures incurred to dismantle facilities and restore well sites are charged against the related restoration liability.

Expenditures by CP Limited to acquire, explore for and develop identified mineral properties are capitalized, net of costs relating to production during the development phase, pending evaluation and completion. Expenditures on general exploration for producing properties and abandoned properties are charged against income.

Depletion on producing properties is provided using a unit of production method based upon the proven mineral reserve position.

CP Limited provides for the eventual reclamation of mineral properties based upon current production.

Interest on funds borrowed to finance major energy projects is capitalized during the development and construction periods.

HOTELS: Hotel properties are recorded at cost including interest capitalized during major renewals.

The sinking fund method of providing depreciation is used for buildings. This method will amortize the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually.

GOODWILL

Goodwill represents the excess of purchase price over fair value of identifiable assets acquired, and is amortized to income over the estimated periods of benefit. CP Limited evaluates the carrying value of goodwill for possible impairment on an annual basis. Goodwill is written down to fair value when declines in value are considered to be other than temporary based upon expected cash flows of the respective subsidiary.

FINANCIAL INSTRUMENTS

Derivative financial instruments are utilized by CP Limited to manage its exposure to market risks relating to foreign currency exchange rates, interest rates (see Note 13 – Long Term Debt) and commodity prices. Unrealized gains and losses on derivative instruments used to convert the Canadian dollar principal of long-term debt to United States dollars are amortized into income over the term of the related debt instrument. Unrealized gains and losses on all other derivative instruments used as hedges are only recognized in income in the period that the hedged exposure is recognized in income, which is the same period as the instrument is settled. The gain or loss is netted against the income or expense item which was hedged. Gains or losses realized on the termination of derivative instruments prior to their maturity are deferred and recognized in the period that the item which was hedged by the terminated instrument is recognized in income.

RESTRUCTURING CHARGES

The present values of future payments towards the restructuring charges are recorded in deferred liabilities and in accrued liabilities, when the timing of future payments is known. The discount is being amortized over the payment period.

2. SEGMENTED INFORMATION

BUSINESS SEGMENTS

CP Limited carries on its operating activities through three classes of business: Transportation, Energy and Hotels. The business segments are based upon the major activities of significant subsidiaries of CP Limited.

The results of all subsidiaries are based upon their reported figures adjusted, where applicable, for acquisition-related costs.

Charges between entities within the same business segment, which are made at normal tariff or other arm's length rates, are eliminated in reporting revenues and expenses by business segment. Services provided by entities in the Transportation segment to other entities in this segment yielded revenues in 1996 of $136.7 million (1995 – $118.9 million; 1994 – $72.2 million).

(in millions)

		Revenues	Cost of Goods Sold and Services	Selling, General and Administrative	Depreciation, Depletion and Amortization
TRANSPORTATION					
CP Railway	**1996**	**$ 3,772.1**	**$ 2,362.7**	**$ 690.7**	**$ 187.9**
	1995	3,779.4	2,475.5	1,857.2	207.4
	1994	3,693.8	2,488.3	691.9	207.9
CP Ships	**1996**	**1,113.8**	**822.6**	**142.4**	**37.9**
	1995	947.9	713.0	128.3	29.7
	1994	565.3	385.7	75.5	18.1
Total (after elimination of intra-segment charges)	**1996**	**$ 4,749.2**	**$ 3,048.6**	**$ 833.1**	**$ 225.8**
	1995	4,608.4	3,069.6	1,985.5	237.1
	1994	4,186.9	2,801.8	767.4	226.0
ENERGY					
PanCanadian Petroleum Limited	**1996**	**$ 2,744.2**	**$ 1,554.3**	**$ 90.4**	**$ 624.7**
	1995	1,857.6	884.7	87.4	541.1
	1994	1,478.2	558.2	74.5	438.4
Fording Inc.	**1996**	**915.1**	**689.1**	**12.9**	**50.6**
	1995	821.9	627.3	9.2	46.9
	1994	648.7	496.7	11.3	42.0
Total	**1996**	**$ 3,659.3**	**$ 2,243.4**	**$ 103.3**	**$ 675.3**
	1995	2,679.5	1,512.0	96.6	588.0
	1994	2,126.9	1,054.9	85.8	480.4

Charges between entities in different business segments, which are made at normal tariff or other arm's length rates, are not eliminated in reporting revenues and expenses by business segment but are eliminated in reporting total consolidated revenues and expenses. Consolidated net income is not affected by this practice. Services provided by the Corporation's Transportation segment to other business segments yielded revenues in 1996 of $290.1 million (1995 – $255.9 million; 1994 – $200.6 million).

Operating Income (Loss)	Interest Expense, Net	Non-Operating Items	Income Tax Expense (Recovery)	Minority Interest	Net Income (Loss)	Identifiable Assets	Additions to Properties
$ 530.8	**$ 112.8**	**$ (42.6)**	**$ 55.2**	**$ –**	**$ 405.4**	**$ 6,623.8**	**$ 445.0**
(760.7)	101.8	63.3	(333.5)	–	(592.3)	5,897.7	615.5
305.7	95.2	54.5	91.7	–	64.3	6,064.1	314.7
110.9	**(3.1)**	**–**	**10.5**	**–**	**103.5**	**645.2**	**99.1**
76.9	(1.0)	–	6.8	–	71.1	543.4	32.5
86.0	(3.1)	(0.1)	6.9	–	82.3	259.0	14.7
$ 641.7	**$ 109.7**	**$ (42.6)**	**$ 65.7**	**$ –**	**$ 508.9**	**$ 7,269.0**	**$ 544.1**
(683.8)	100.8	63.3	(326.7)	–	(521.2)	6,441.1	648.0
391.7	92.1	54.4	98.6	–	146.6	6,323.1	329.4
$ 474.8	**$ 47.8**	**$ (26.0)**	**$ 121.3**	**$ 46.1**	**$ 285.6**	**$ 5,037.8**	**$ 775.6**
344.4	34.2	1.5	94.2	30.0	184.5	4,627.0	1,010.7
407.1	30.0	2.5	102.2	37.7	234.7	3,864.6	858.0
162.5	**10.4**	**(0.4)**	**58.9**	**–**	**93.6**	**920.6**	**159.8**
138.5	12.5	(0.3)	47.9	–	78.4	773.1	114.3
98.7	10.6	(0.3)	33.7	–	54.7	688.3	65.4
$ 637.3	**$ 58.2**	**$ (26.4)**	**$ 180.2**	**$ 46.1**	**$ 379.2**	**$ 5,958.4**	**$ 935.4**
482.9	46.7	1.2	142.1	30.0	262.9	5,400.1	1,125.0
505.8	40.6	2.2	135.9	37.7	289.4	4,552.9	923.4

2. SEGMENTED INFORMATION (CONT'D)
(in millions)

		Revenues	Cost of Goods Sold and Services	Selling, General and Administrative	Depreciation, Depletion and Amortization
HOTELS					
Canadian Pacific Hotels	**1996**	**$ 565.6**	**$ 338.0**	**$ 71.8**	**$ 40.0**
& Resorts Inc.	1995	518.5	318.3	64.8	38.5
	1994	479.7	307.9	62.3	36.8
WASTE SERVICES					
Laidlaw Inc.	**1996**				
	1995				
	1994				
TOTAL OF SEGMENTS (after elimination	**1996**	**$ 8,684.0**	**$ 5,339.9**	**$ 1,008.2**	**$ 941.1**
of inter-segment charges)	1995	7,550.5	4,644.0	2,146.9	863.6
	1994	6,592.9	3,964.0	915.5	743.2
OTHER					
Other activities	**1996**				
	1995				
	1994				
CONTINUING OPERATIONS					
(after inter-company eliminations)	**1996**	**$ 8,684.0**	**$ 5,339.9**	**$ 1,008.2**	**$ 941.1**
	1995	7,550.5	4,644.0	2,146.9	863.6
	1994	6,592.9	3,964.0	915.5	743.2
DISCONTINUED OPERATIONS (NOTE 6)	**1996**				
	1995				
	1994				
CONSOLIDATED TOTAL	**1996**				
	1995				
	1994				

NOTES

TRANSPORTATION: Included in revenues of CP Railway, in 1996, is a $16.7 million gain on the sale of an equity investment in a rail industry insurance association. Included in other income of CP Railway, in 1996, is a gain of $120.4 million on the repayment of the Perpetual 4% Consolidated Debenture Stock, and a $30 million charge ($16.5 million after tax) to reflect a reduction in the discount rate on previous restructuring accruals. Included in selling, general and administrative expenses of CP Railway, in 1995, is a $1,143 million provision for write-down of assets and restructuring costs. The related income tax recovery is $439 million.

HOTELS: Included in other expenses (income) of Canadian Pacific Hotels & Resorts Inc., in 1996 is a $31 million gain on the sale of the remaining shares of Doubletree Corporation, and in 1995, is a $60.7 million gain on the sale of approximately four million Doubletree Corporation shares. The related income tax expense is $11.4 million in 1996, and $26.2 million in 1995.

Operating Income (Loss)	Interest Expense, Net	Non-Operating Items	Income Tax Expense (Recovery)	Minority Interest	Net Income (Loss)	Identifiable Assets	Additions to Properties
$ 115.8	$ 24.1	$ (31.1)	$ 52.8	$ –	$ 70.0	$ 1,027.5	$ 51.0
96.9	38.0	(60.7)	52.8	–	66.8	1,012.8	49.8
72.7	35.4	(3.1)	12.8	–	27.6	1,038.8	27.1
					$ 34.1	$ 696.7	$ –
					27.6	679.9	–
					13.9	668.4	–
$ 1,394.8	$ 192.0	$ (100.1)	$ 298.7	$ 46.1	$ 992.2	$ 14,951.6	$ 1,530.5
(104.0)	185.5	3.8	(131.8)	30.0	(163.9)	13,533.9	1,822.8
970.2	168.1	53.5	247.3	37.7	477.5	12,583.2	1,279.9
	$ 43.3	$ 127.1	$ (12.3)	$ –	$ (158.1)	$ 2,639.3	$ 0.1
	38.7	126.9	(64.1)	–	(101.5)	3,380.1	0.1
	73.3	13.4	(74.1)	–	(12.6)	3,571.7	0.2
$ 1,394.8	$ 235.3	$ 27.0	$ 286.4	$ 46.1	$ 834.1	$ 15,215.9	$ 1,530.6
(104.0)	224.2	130.7	(195.9)	30.0	(265.4)	14,239.0	1,822.9
970.2	241.4	66.9	173.2	37.7	464.9	14,026.0	1,280.1
					$ (5.0)	$ –	$ –
					(558.1)	1,798.9	–
					(71.8)	2,886.3	–
					$ 829.1	$ 15,215.9	$ 1,530.6
					(823.5)	16,037.9	1,822.9
					393.1	16,912.3	1,280.1

OTHER: Included in other expenses (income) of corporate activities, in 1996 is $30 million additional amortization of exchange loss on the intended early repayment in 1997 of U.S. $500 million of debt, and in 1995, is a $90 million charge relating to the Corporation's restructuring plan. The related income tax recovery in 1995 is $20 million. Income tax expense for 1996 includes a $25 million general tax provision and a $33 million charge relating to the sale of tax losses to a subsidiary in prior years.

2. SEGMENTED INFORMATION (CONT'D)

(in millions)	1996	1995	1994
GEOGRAPHIC SEGMENTS			
Canada			
Revenues			
Domestic	$ 4,642.9	$ 4,037.6	$ 4,059.2
Export	1,615.2	1,372.1	1,231.0
Inter-company revenues	(426.8)	(374.8)	(272.8)
	$ 5,831.3	$ 5,034.9	$ 5,017.4
Operating income	$ 1,091.6	$ 103.6	$ 959.4
Identifiable assets	$ 13,094.1	$ 14,069.9	$ 13,971.9
United States			
Revenues	$ 2,335.5	$ 1,609.4	$ 1,035.8
Operating income (loss)	$ 300.8	$ (263.8)	$ (67.1)
Identifiable assets	$ 3,066.6	$ 3,565.7	$ 3,757.9
Other Countries			
Revenues	$ 517.2	$ 906.2	$ 539.7
Operating income	$ 2.4	$ 56.2	$ 77.9
Identifiable assets	$ 733.5	$ 397.4	$ 371.3
Summary			
Revenues	$ 8,684.0	$ 7,550.5	$ 6,592.9
Operating income (loss)	$ 1,394.8	$ (104.0)	$ 970.2
Identifiable assets	$ 16,894.2	$ 18,033.0	$ 18,101.1
Investment in Laidlaw Inc.	696.7	679.9	668.4
Investment in Unitel Communications Holdings Inc.	–	–	166.7
Investment in United Dominion Industries Limited	–	–	105.0
Inter-company eliminations	(2,375.0)	(2,675.0)	(2,128.9)
	$ 15,215.9	$ 16,037.9	$ 16,912.3

3. INTEREST EXPENSE, NET

(in millions)	1996	1995	1994
Long term debt and debenture stock	$ 288.3	$ 358.2	$ 355.1
Short term debt	5.9	4.1	3.5
	294.2	362.3	358.6
Less: Interest income	58.9	138.1	116.2
Interest capitalized	–	–	1.0
	$ 235.3	$ 224.2	$ 241.4

4. NON-OPERATING ITEMS

(in millions)	1996	1995	1994
Gain on repayment of the Perpetual 4% Consolidated Debenture Stock	$ (120.4)	$ –	$ –
Gain on sale of Doubletree Corporation shares	(31.0)	(60.7)	–
Gain on sale of working interest in Syncrude	(9.0)	–	–
Amortization of exchange losses (gains)	54.8	(10.9)	15.3
Other exchange losses (gains)	(8.2)	15.0	(31.6)
Amortization of the discount of the present value of the restructuring accruals	61.2	40.4	36.7
Corporate restructuring charges	–	90.0	–
Corporate and other expenses	79.6	56.9	46.5
	$ 27.0	$ 130.7	$ 66.9

5. INCOME TAX EXPENSE (RECOVERY)

(in millions)	1996	1995	1994
Canadian			
Current	$ 80.4	$ 47.1	$ 18.8
Deferred	182.3	(197.7)	186.2
	$ 262.7	$ (150.6)	$ 205.0
Foreign			
Current	$ 13.6	$ 6.9	$ 8.0
Deferred	10.1	(52.2)	(39.8)
	$ 23.7	$ (45.3)	$ (31.8)
Total			
Current	$ 94.0	$ 54.0	$ 26.8
Deferred	192.4	(249.9)	146.4
	$ 286.4	$ (195.9)	$ 173.2
The deferred income tax expense (recovery) arose from the following:			
Excess of tax over book depreciation	$ 63.7	$ 58.4	$ 31.3
Exploration and development allowances in excess of depletion	41.7	51.3	49.0
Losses tax affected	(207.0)	(122.6)	(39.3)
Tax losses utilized	109.3	182.8	70.7
Write-down of assets and restructuring costs	–	(459.0)	–
Reduction in restructuring accruals	84.8	35.3	34.6
Other	99.9	3.9	0.1
	$ 192.4	$ (249.9)	$ 146.4
The difference between the income tax expense (recovery) and the provision obtained by applying the statutory tax rate is as follows:			
Provision at Canadian statutory rates	$ 508.5	$ (203.2)	$ 294.4
Depletion and resource allowances	(115.0)	(92.4)	(85.7)
Foreign tax rate differentials	(51.0)	(43.3)	(83.0)
Royalties and mineral reserve tax	62.4	51.0	32.6
Losses (gains) not tax affected	(44.7)	54.6	4.8
Previously unrecognized loss carryforwards utilized	(141.9)	(5.2)	(21.6)
Large corporations tax	19.8	17.2	16.1
Non-deductible amortization of excess of acquisition cost over book value	5.9	5.9	6.6
Capital gains rate differential	3.0	–	–
Other	39.4	19.5	9.0
Income tax expense (recovery)	$ 286.4	$ (195.9)	$ 173.2

6. DISCONTINUED OPERATIONS

On September 30, 1996, the Corporation completed the sale of the Canadian assets of its wholly-owned real estate subsidiaries, Marathon Realty Company Limited and Centrixx Realty Holdings Limited, collectively "Marathon", at a price of approximately $952 million, including assumed debt. The sale of Marathon's U.S. shopping centre portfolio was also completed for gross proceeds of U.S. $319 million. No gain was booked on the sale of the real estate assets.

On and around December 15, 1995, the Corporation delivered virtually all of its remaining United Dominion Industries Limited (United Dominion) Common Shares in exchange for the 8.50% Equity Exchangeable Debentures.

In late September 1995, a restructuring agreement was announced, which resulted in the Corporation no longer holding an equity interest in Unitel Communications Holdings Inc. (Unitel). The Corporation wrote-off its investment in Unitel.

On September 26, 1994, the Corporation sold the remaining divisions of its CP Trucks business.

The results of discontinued operations are summarized below:

(in millions)	1996
	Marathon
Revenues	$ 237.9
Operating income	81.9
Interest expense, net	85.0
Non-operating items	(2.2)
Loss before income taxes and minority interest	(0.9)
Income tax expense	2.8
Minority interest share of income of subsidiaries	1.3
Net loss	(5.0)
Gain (loss) on disposal	–
Income tax expense	–
Loss from discontinued operations	$ (5.0)

(in millions)	1995			
	Marathon	Unitel	CP Trucks	Total
Revenues	$ 420.1	$ –	$ –	$ 420.1
Operating loss	(417.0)	–	–	(417.0)
Interest expense, net	134.1	–	–	134.1
Non-operating items	0.7	–	10.0	10.7
Loss before income taxes, minority interest and equity in income	(551.8)	–	(10.0)	(561.8)
Income tax recovery	(198.5)	–	–	(198.5)
Minority interest share of income of subsidiaries	1.9	–	–	1.9
Loss before equity in income	(355.2)	–	(10.0)	(365.2)
Equity in loss	–	(127.3)	–	(127.3)
Net loss	(355.2)	(127.3)	(10.0)	(492.5)
Loss on disposal	–	(86.7)	–	(86.7)
Income tax recovery	–	(21.1)	–	(21.1)
	–	(65.6)	–	(65.6)
Loss from discontinued operations	$ (355.2)	$ (192.9)	$ (10.0)	$ (558.1)

6. DISCONTINUED OPERATIONS (CONT'D)

(in millions)	1994				
	Marathon	Unitel	United Dominion	CP Trucks	Total
Revenues	$ 494.6	$ –	$ –	$ 112.2	$ 606.8
Operating income (loss)	143.7	–	–	(13.9)	129.8
Interest expense, net	161.7	–	–	0.7	162.4
Non-operating items	0.4	–	(76.7)	(0.4)	(76.7)
Income (loss) before income taxes, minority interest and equity in income	(18.4)	–	76.7	(14.2)	44.1
Income tax expense (recovery)	7.8	–	(11.1)	–	(3.3)
Minority interest share of income of subsidiaries	1.9	–	–	–	1.9
Income (loss) before equity in income	(28.1)	–	87.8	(14.2)	45.5
Equity in loss	–	(114.8)	–	–	(114.8)
Net income (loss)	(28.1)	(114.8)	87.8	(14.2)	(69.3)
Loss on disposal	–	–	–	(37.0)	(37.0)
Income tax recovery	–	–	–	(34.5)	(34.5)
	–	–	–	(2.5)	(2.5)
Income (loss) from discontinued operations	$ (28.1)	$ (114.8)	$ 87.8	$ (16.7)	$ (71.8)

The results of discontinued operations are after deductions for depreciation and amortization of $35.0 million in 1996; $94.0 million in 1995 and $175.4 million in 1994.

Financing activities for discontinued operations are:

(in millions)	1996	1995	1994
Issuance of long term debt	**$ 36.3**	$ 294.4	$ 196.6
Repayment of long term debt	**(115.4)**	(399.1)	(508.9)
Redemption of shares by subsidiaries	**(25.4)**	–	–
	$ (104.5)	$ (104.7)	$ (312.3)

Investing activities for discontinued operations are:

(in millions)	1996	1995	1994
Business acquisitions and investments	**$ –**	$ (47.3)	$ (112.8)
Additions to properties	**(43.9)**	(144.4)	(109.6)
Sales of businesses, investments and properties	**99.5**	316.7	375.3
Other investing activities	**9.8**	40.0	(28.2)
	$ 65.4	$ 165.0	$ 124.7

7. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(in millions)	1996	1995	1994
(Increase) decrease in current assets			
Accounts receivable	$ (349.8)	$ (99.6)	$ (125.4)
Inventories	(18.8)	6.2	(79.6)
Increase in current liabilities			
Accounts payable and accrued liabilities	96.4	198.9	188.1
Income and other taxes payable	23.9	43.7	7.0
(Increase) decrease in non-cash working capital balances during the year	(248.3)	149.2	(9.9)
Decrease (increase) in non-cash working capital balances relating to write-downs of assets and restructuring costs	231.4	(349.2)	–
Increase in non-cash working capital balances relating to reduction in restructuring accruals	–	89.1	88.8
Non-cash working capital balances of business acquired	–	(45.7)	–
Increase in non-cash working capital balances relating to discontinued operations	10.3	52.4	5.7
Other changes in non-cash working capital balances not relating to continuing operations (mainly movement from/to current assets/liabilities to/from long term assets/liabilities)	(127.2)	(15.1)	(90.7)
Increase in non-cash working capital balances relating to continuing operations	$ (133.8)	$ (119.3)	$ (6.1)

8. BUSINESS ACQUISITIONS AND INVESTMENTS

Expenditures on business acquisitions and investments comprise the following:

(in millions)	1996	1995	1994
Investment by the Corporation in:			
Cast group	$ –	$ 88.1	$ 6.9
Other acquisitions and investments	84.7	16.0	16.9
	$ 84.7	$ 104.1	$ 23.8

On March 31, 1995, the Corporation completed the purchase of the container shipping business of the Cast group. Total cost of acquisition amounted to $95.0 million (net of an $11 million cash position of Cast at acquisition). The excess of total cost over book value, which amounted to $129.1 million, has been allocated to goodwill and is being amortized over 20 years. The results of Cast have been included in the Transportation segment, under CP Ships, from the date of acquisition.

9. INVENTORIES

(in millions)	1996	1995
Rail materials and supplies	$ 188.3	$ 185.9
Raw materials and work in progress	23.9	24.1
Finished goods	115.8	101.2
Stores and materials	51.1	49.1
	$ 379.1	$ 360.3

10. INVESTMENTS

(in millions)	1996	1995
Accounted for on the equity basis:		
Laidlaw Inc.*	$ 696.7	$ 679.9
CNCP Niagara-Detroit Partnership	43.3	49.3
Other	51.3	40.8
Accounted for on the cost basis:		
Doubletree Corporation**	–	9.6
Other	89.8	97.9
	$ 881.1	$ 877.5

*The Corporation owns 22,500,000 voting Class A Shares, which represent 47.2% of Laidlaw's voting Class A Shares outstanding, and 29,711,034 Class B Non-Voting Shares, which represent 11.1% of Laidlaw's Class B Non-Voting Shares outstanding. The Corporation's ownership interest in Laidlaw, based on the combined number of Class A and Class B shares outstanding, was 16.6% at December 31, 1996, 17.8% at December 31, 1995 and 18.8% at December 31, 1994.

At December 31, 1996, the difference of approximately $225 million between the carrying amount of the Corporation's investment in Laidlaw and its share of the underlying equity in net assets of Laidlaw has been assigned to goodwill and is being written off over 40 years.

The quoted market value of the Corporation's investment in Laidlaw at December 31, 1996 was $847 million.

** On June 19, 1995, the Corporation, through a wholly-owned subsidiary, sold approximately four million shares of Doubletree Corporation (Doubletree). This resulted in CP Limited's ownership interest in Doubletree to be reduced from 26.2% to 5.2%. Consequently, from that date, the investment in Doubletree was accounted for on a cost, rather than equity, basis. During 1996, the remaining investment in Doubletree was sold.

11. PROPERTIES AND ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION

(in millions)	1996			1995
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Net
TRANSPORTATION				
CP Railway	$ 8,699.6	$ 3,513.9	$ 5,185.7	$ 4,802.9
CP Ships	360.8	158.4	202.4	143.6
	9,060.4	3,672.3	5,388.1	4,946.5
ENERGY				
PanCanadian Petroleum Limited	7,472.7	3,644.7	3,828.0	3,958.1
Fording Inc.	1,065.8	369.0	696.8	589.8
	8,538.5	4,013.7	4,524.8	4,547.9
HOTELS				
Canadian Pacific Hotels & Resorts Inc.	1,262.9	336.2	926.7	914.7
DISCONTINUED OPERATIONS				
Marathon Realty Company Limited	–	–	–	1,685.6
OTHER	282.3	50.0	232.3	43.6
	$ 19,144.1	$ 8,072.2	$ 11,071.9	$ 12,138.3

12. OTHER ASSETS AND DEFERRED CHARGES

(in millions)	1996	1995
Unamortized exchange loss	$ 118.4	$ 150.6
Goodwill, net of amortization	132.2	135.3
Prepaid pension cost	143.5	114.7
Long term receivables	63.1	51.3
Unrealized exchange gains	0.2	18.4
Unamortized discount on long term debt and issue costs	14.5	16.5
Other	120.5	95.9
	$ 592.4	$ 582.7

13. LONG TERM DEBT

(in millions)	1996	1995
CANADIAN PACIFIC RAILWAY COMPANY		
6.875% – 9.45% Debentures due 2003-2022	$ 1,027.5	$ 1,020.0
Perpetual 4% Consolidated Debenture Stock	57.2	186.6
Obligations under capital leases due 1997-2014	248.0	237.8
PANCANADIAN PETROLEUM LIMITED		
7.5% – 8.4% Medium term notes due 2001-2006	474.0	422.0
8.75% – 10.55% Debentures due 2000-2005	350.0	350.0
Commercial paper	–	70.0
Bank loans	31.4	20.2
Other long term financing	42.5	–
CANADIAN PACIFIC LIMITED		
10.5% Debentures due 2001	250.0	250.0
6.75% and 7.5% Debentures due 1996	–	207.1
CANADIAN PACIFIC ENTERPRISES LIMITED		
Bank term loans due 1999-2000	685.0	680.0
8.67% Debentures due 1998	52.8	76.2
CANADIAN PACIFIC SECURITIES LIMITED		
10.75% – 11.6% Guaranteed debentures due 1999-2026	201.2	499.2
DISCONTINUED OPERATIONS		
Marathon Realty Company Limited	–	1,044.6
OTHER	22.2	32.7
	3,441.8	5,096.4
Less: Long term debt maturing within one year	786.7	682.3
	$ 2,655.1	$ 4,414.1

The Corporation's and Canadian Pacific Railway Company's debentures are unsecured, but carry a negative pledge.

Canadian Pacific Railway Company's Perpetual 4% Consolidated Debenture Stock constitutes a first charge upon and over the whole of the undertaking, railways, works, rolling stock, plant, property and effects of Canadian Pacific Railway Company, with certain exceptions.

Canadian Pacific Railway Company's obligations under capital leases vary with money market rates.

A series of forward foreign currency exchange, interest rate swap and cross currency interest rate swap transactions have been entered into with respect to PanCanadian Petroleum Limited's (PanCanadian) 10.55% Debentures due 2000 amounting to $150 million, which result in an effective interest rate of 8.64% on U.S. $109.5 million.

PanCanadian had entered into an interest rate swap transaction which was subsequently cancelled in exchange for a payment of U.S. $5.8 million from the counterparty, relating to U.S. $100 million of medium-term notes with a fixed interest rate of 7.645%. This resulted in an effective fixed interest rate of 6.37%. PanCanadian, through a series of interest rate and cross-currency interest rate swaps, converted another $100 million of medium-term notes with a fixed interest rate of 8.4% into U.S. $73.1 million with an effective interest rate of 5.96%, and converted a further $100 million of medium-term notes with a fixed interest rate of 7.5% into $50 million with an effective rate of 5.94% and U.S. $36.5 million with an interest rate which fluctuates with money market rates.

PanCanadian's debentures and medium term notes are unsecured, but carry a negative pledge.

Canadian Pacific Enterprises Limited's bank term loans due 1999-2000 of $685 million bear interest at rates which fluctuate with money market rates.

At December 31, 1996, foreign currency long term debt, denominated principally in United States dollars, amounted to $2,347.1 million (1995 – $2,853.4 million).

Annual maturities and sinking fund requirements for each of the five years following 1996 are: 1997 – $786.7 million; 1998 – $111.5 million; 1999 – $75.0 million; 2000 – $189.9 million; 2001 – $403.1 million.

In addition to the financial instruments associated with the long term debt referred to above, the Corporation and a number of its subsidiaries are parties with major financial institutions to other financial instruments with off-balance sheet risk as discussed below.

COMMODITY INSTRUMENTS

Exposure to changing crude oil prices is hedged using New York Mercantile Exchange's ("NYMEX") West Texas Intermediate ("WTI") futures contracts and fluctuating differentials for crude oil quality are hedged using over the counter ("OTC") financial instruments. As at December 31, 1996 the Corporation has sold forward, primarily using NYMEX WTI futures contracts, approximately 16.6 million barrels of crude oil for delivery in 1997 for an average price of U.S. $18.52 per barrel and OTC financial instruments are in place which fix the heavy oil differential at U.S. $4.37 per barrel on 2.2 million barrels for each of the years 1997 and 1998. As at December 31, 1996, the unrealized loss related to crude oil instruments was $110.2 million.

Exposure to changing natural gas prices is hedged using NYMEX natural gas futures contracts and OTC financial instruments. As at December 31, 1996 the unrealized gain on natural gas instruments was $4.6 million.

FORWARD FOREIGN CURRENCY EXCHANGE CONTRACTS

Exposure to changes in the Cdn$/U.S.$ exchange rate on future commodity revenue streams and long term debt denominated in U.S. dollars is managed by selling or purchasing forward U.S. dollars at fixed rates in future periods. As at December 31, 1996 the Corporation has entered into foreign exchange contracts to sell approximately U.S. $4,259.9 million at rates ranging from 1.29 to 1.52 over the years 1997 to 2002 and purchase U.S. $149.8 million at rates ranging from 1.34 to 1.37. As at December 31, 1996 the unrealized gain on forward foreign currency exchange contracts was $149.4 million.

INTEREST RATE SWAPS

In addition to the interest rate swaps associated with the long term debt above, CP Limited has entered into approximately $1,400 million of interest rate swap agreements, maturing in years 1997 to 2005, to revise the effective interest payable on certain intercompany debt.

CREDIT RISK MANAGEMENT

CP Limited is exposed to credit losses in the event of non-performance by counterparties to financial instruments; however, CP Limited does not anticipate such non-performance because of dealing with counterparties of high credit quality. In addition, CP Limited does not believe that there are any significant concentrations of credit risk.

INTEREST RATE EXPOSURE AND FAIR VALUES

The Corporation's exposure to interest rate risk along with the total carrying amounts and fair values of its financial instruments is summarized in the following table:

(in millions)

	Floating Interest Rate	Fixed Interest Rate Maturing in: Less than One Year	One to Five Years	More than Five Years	Non-Interest Bearing	Total Carrying Value	Fair Value
FINANCIAL ASSETS							
Cash and Short Term Investments	$ 981.2	$ –	$ –	$ –	$ –	$ 981.2	$ 981.2
Accounts Receivable	–	–	–	–	1,310.2	1,310.2	1,310.2
Other Assets	–	–	–	–	63.1	63.1	63.1
FINANCIAL LIABILITIES							
Bank loans	(128.6)	–	–	–	–	(128.6)	(128.6)
Accounts and Other Payables	–	–	–	–	(2,161.3)	(2,161.3)	(2,161.3)
Long Term Debt	(980.7)	(31.8)	(704.4)	(1,724.9)[1]	–	(3,441.8)	(3,673.4)
Derivative Instruments							
Interest Rate Swaps relating to Long Term Debt on Balance Sheet	50.0	–	–	(50.0)	–	–	35.1
Other Interest Rate Swaps						–	52.4
Forward foreign currency contracts						–	149.4
Commodity instruments						–	(105.6)

[1]Includes $57.2 million of Perpetual 4% Consolidated Debenture Stock with no maturity date.

For 1995, the fair value of short term financial assets and liabilities is estimated to equal the carrying value on the balance sheet. The fair values for 1995 of long term debt related to continuing operations, interest rate swaps, forward foreign currency contracts and commodity instruments are $4,254.9 million, $63.9 million, $68.2 million and $(23.1) million respectively.

13. LONG TERM DEBT (CONT'D)

The Company has determined the estimated fair value of its financial instruments based on appropriate valuation methodologies. However, considerable judgement is necessary to develop these estimates. Accordingly, the estimates presented herein are not necessarily indicative of what the Company could realize in a current market exchange. The use of different assumptions or methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- Short-term financial assets and liabilities are valued at their carrying amount as presented in the Balance Sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of these instruments.
- The fair value of publicly traded long term debt is determined based upon market prices at December 31, 1996. The fair value of other long term debt is estimated based on rates currently available to the Company for long term borrowing with similar terms and conditions to those borrowings in place at the balance sheet date.
- The fair value of derivative instruments is estimated as the unrealized gain or loss calculated based on market prices or rates at December 31, 1996 which generally reflects the estimated amounts that the Company would receive or pay to terminate the contracts at the balance sheet date.

14. DEFERRED LIABILITIES

(in millions)	1996	1995
Provision for restructuring costs	$ **399.2**	$ 372.9
Future removal and site restoration costs	**264.2**	239.8
Deferred workers' compensation	**80.0**	80.1
Deferred hedging gains	**46.5**	34.8
Accrued pension cost	**–**	38.7
Other	**96.9**	102.4
	$ **886.8**	$ 868.7

15. DEFERRED INCOME CREDITS

Deferred Income Credits include $161.1 million (1995 – $166.0 million) from the Federal Government primarily for the rehabilitation of certain western branch lines, $187.6 million (1995 – $166.0 million) from other bodies, mainly for relocation of railway lines, $64.4 million (1995 – $65.9 million) in investment tax credits and $57.3 million (1995 – $62.9 million) representing the accumulated surplus depreciation (as revealed by a study, in 1993, of the expected economic lives of existing depreciable assets as required by the National Transportation Agency). These amounts are being amortized to income on the same basis as the related properties are being depreciated.

16. MINORITY SHAREHOLDERS' INTEREST IN SUBSIDIARY COMPANIES

(in millions)	1996	1995
PanCanadian Petroleum Limited	$ **320.2**	$ 284.2
Marathon Realty Company Limited		
7.5% Cumulative redeemable preferred shares	**–**	25.0
Other	**1.4**	1.9
	$ **321.6**	$ 311.1

17. SHAREHOLDERS' EQUITY

The Corporation's articles were amended on July 4, 1996 to change the classes and number of shares authorized for issuance to an unlimited number of Common Shares and an unlimited number of First Preferred Shares and Second Preferred Shares.

Also on July 4, 1996 the Corporation completed an arrangement under Section 192 of the Canada Business Corporations Act with Canadian Pacific Railway Company ("Old CPL") in connection with a reorganization (the "Reorganization") which resulted in the Corporation becoming the parent corporation of Old CPL, CP Ships Inc., PanCanadian Petroleum Limited, Fording Coal Holdings Inc. and Canadian Pacific Hotels & Resorts Inc. As part of the Reorganization, the Ordinary Shares of Old CPL were exchanged for Common Shares of the Corporation on a one for one basis and the Preference Shares of Old CPL were converted into Common Shares of the Corporation at a ratio of 4.263 Preference Shares for

each Common Share. Holders of Old CPL's Consolidated Debenture Stock elected to either (i) exchange their Consolidated Debenture Stock for cash or Common Shares of the Corporation or (ii) retain their Consolidated Debenture Stock with no change to the terms thereof and with the support of bank letters of credit. Following the Reorganization the Corporation held, directly or indirectly, on a consolidated basis, the same assets and was subject to the same liabilities as Old CPL prior to the Reorganization.

At December 31, 1996 no First Preferred Shares or Second Preferred Shares were outstanding. At December 31, 1995, there were 2,561,769 Sterling Preference Shares and 10,696,941 Canadian Dollar Preference Shares outstanding, amounting to $4.2 million and $10.7 million respectively.

An analysis of Common Share (formerly Ordinary Share) balances is as follows:

(in millions)	1996		1995		1994	
	Number	Amount	Number	Amount	Number	Amount
Balance, January 1	**342.3**	**$ 1,767.7**	341.8	$ 1,756.6	319.4	$ 1,247.0
New issue	**3.3**	**19.5**	–	–	22.0	500.5
Issued under dividend reinvestment and share purchase, and stock option plans	**1.4**	**29.4**	0.5	11.1	0.4	9.1
Share repurchase plan	**(0.1)**	**(2.2)**	–	–	–	–
Balance, December 31	**346.9**	**$ 1,814.4**	342.3	$ 1,767.7	341.8	$ 1,756.6

On March 10, 1994, the Corporation issued 22 million Common Shares (formerly Ordinary Shares) at a price of $22.75 per share for total gross proceeds of $500.5 million. Share issue expenses of $20.5 million have been charged to Premium on Securities.

The Corporation has a Dividend Reinvestment and Share Purchase Plan which permits participants to acquire new Common Shares of the Corporation by reinvesting cash dividends paid on Common Shares held by them and by investing optional cash payments, to a maximum of $30,000 in any calendar year.

On July 24, the Corporation announced a Normal Course Issuer Bid to repurchase up to 10 million of its Common Shares, representing about 3% of its Common Shares then outstanding. Purchases may be made at market prices on the Toronto, Montreal, Vancouver and Alberta stock exchanges over the 12 months following regulatory approvals which were granted in mid-August. As of December 31, 1996, 66,000 shares had been repurchased under this plan at a cost of $2.2 million.

FOREIGN CURRENCY TRANSLATION ADJUSTMENTS:
An analysis of the Foreign Currency Translation Adjustments balance is as follows:

(in millions)	1996	1995	1994
Balance, January 1	**$ 204.5**	$ 236.0	$ 224.7
Effect of exchange rate changes	**(13.3)**	(31.5)	11.8
Release of exchange into income on the repayment of the Perpetual 4% Consolidated Debenture Stock	**(101.0)**	–	–
Discontinued operation	**(22.6)**	–	–
Other	**–**	–	(0.5)
Balance, December 31	**$ 67.6**	$ 204.5	$ 236.0

18. STOCK OPTIONS

Under the Corporation's stock option plan, options may be granted to certain key employees to purchase Common Shares of the Corporation at a price not less than the market value of the shares at the grant date. Each option may be exercised after two years in respect of one-half of the number of shares to which it relates and after three years in respect of the balance. Options expire ten years after the grant date.

Simultaneously with the grant of an option, employees are also granted Share Appreciation Rights (SARs) equivalent to one-half the number of shares to which each option relates. An SAR entitles the holder to receive payment of an amount equal to the excess of the market value of a Common Share at the time of exercise of the SAR over the related option price. SARs may be exercised no earlier than three years and no later than ten years after the grant date.

Where an option has been exercised as to one-half the number of shares to which it relates, any further exercise reduces the number of SARs granted on a one-for-one basis. At all times the exercise of an SAR reduces the number of shares covered by an option on a one-for-one basis.

In the event of a change in control of the Corporation, all outstanding options and SARs become immediately exercisable.

In 1996, 5,660,459 shares (1995 – 5,320,613) were available for the granting of future options under the stock option plan out of the 12,000,000 Common Shares originally authorized.

At December 31, 1996, options covering 4,479,064 Common Shares (1995 – 5,920,268) were outstanding. These options expire in the years 1997 to 2006 and are exercisable at prices ranging from $16.125 to $31.600 per share.

Details of the stock options outstanding were as follows:

	1996	1995
Outstanding at beginning of year	**5,920,268**	5,674,832
Granted	**443,400**	906,700
Exercised	**(1,101,358)**	(282,678)
Cancelled	**(783,246)**	(378,586)
Outstanding at end of year	**4,479,064**	5,920,268

Options covering 2,727,887 (1995 – 3,265,571) Common Shares were exercisable at December 31, 1996 at a weighted average option price of $20.878 (1995 – $20.321) per share.

19. PENSIONS

The Corporation and the majority of its subsidiaries have defined benefit plans which provide for pensions based principally on years of service and compensation rates near retirement. Annual contributions to these plans, which are based on various actuarial cost methods, are made on the basis of not less than the minimum amounts required by Federal or Provincial pension supervisory authorities.

Net pension expense from continuing operations for the year for such defined benefit plans includes the following components:

(in millions)	1996	1995	1994
Service cost-benefits earned during the year	**$ 27.5**	$ 26.9	$ 26.5
Interest cost on projected benefit obligation	**334.1**	358.9	198.4
Actual return on pension fund assets	**(747.2)**	(555.4)	8.2
Net amortization and deferrals	**467.4**	265.8	(164.3)
Net pension expense	**$ 81.8**	$ 96.2	$ 68.8

19. PENSIONS (CONT'D)

The following table sets forth the plans' funded status and the amounts recognized in CP Limited's consolidated balance sheet as at December 31:

(in millions)	1996 Plans having assets in excess of accumulated benefits	1996 Plans having accumulated benefits in excess of assets	1995 Plans having assets in excess of accumulated benefits	1995 Plans having accumulated benefits in excess of assets
Actuarial present value of benefit obligation:				
Vested	$ 4,355.4	$ –	$ 3,872.3	$ 98.6
Non-vested	12.2	–	9.2	2.4
Accumulated benefit obligation	4,367.6	–	3,881.5	101.0
Effect of projected future salary increases	427.9	–	360.1	12.6
Projected benefit obligation (based on a weighted average discount rate of approximately 8% and a weighted average salary increase of approximately 3%)	4,795.5	–	4,241.6	113.6
Pension fund assets at market related values	4,745.7	–	4,116.5	67.8
Pension fund assets less than projected benefit obligation	(49.8)	–	(125.1)	(45.8)
Unamortized portion of net obligation at January 1, 1987*	129.4	–	150.1	4.0
Unamortized prior service cost*	145.6	–	163.7	0.5
Unamortized net (gain) loss*	(81.7)	–	(74.0)	2.6
Prepaid (accrued) pension cost in Consolidated Balance Sheet	$ 143.5	$ –	$ 114.7	$ (38.7)

*Being amortized over expected average remaining service lives of employees, generally 14 years.

Pension fund assets consist primarily of listed stocks and bonds. The assumed weighted average long term rate of return on pension fund assets is approximately 8%.

CP Limited also has subsidiary-sponsored defined contribution plans. Pension expense from continuing operations for such plans, which generally equals the employer's required contribution, was $8.0 million, $4.6 million and $4.5 million in 1996, 1995 and 1994, respectively.

In addition to pension benefits, the Corporation and several of its subsidiaries provide health care and life insurance benefits for certain retired employees. The cost of providing these benefits is recognized by expensing the annual insurance premiums which were approximately $13 million, $12 million and $12 million in 1996, 1995 and 1994, respectively.

20. COMMITMENTS AND CONTINGENCIES

At December 31, 1996, commitments for capital expenditures amounted to $163.4 million and minimum payments under operating leases and gas pipeline transportation agreements were estimated at $1,489.6 million in the aggregate, with annual payments in each of the five years following 1996 of: 1997 – $293.6 million; 1998 – $249.4 million; 1999 – $201.1 million; 2000 – $140.8 million; 2001 – $118.5 million.

At December 31, 1996, unused lines of credit for short term and long term financing, subject to periodic review, repayable on demand and at various maturities, amounted to $1,122.6 million on which interest rates vary with bank prime or money market rates.

21. RECLASSIFICATION

Certain prior years' figures have been reclassified to conform with the presentation adopted for 1996.

22. SUPPLEMENTARY DATA

The discussion of Canadian and United States accounting principles and the reconciliation of net income between United States and Canadian generally accepted accounting principles for the years included in Supplementary Data are an integral part of these financial statements.

The following data are provided to comply with certain disclosure requirements of the Securities and Exchange Commission (SEC) of the United States.

CANADIAN AND UNITED STATES ACCOUNTING PRINCIPLES

The consolidated financial statements of CP Limited have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada, as promulgated by the Canadian Institute of Chartered Accountants. Over the years, a number of differences have developed between Canadian and United States GAAP. For the information of the Corporation's United States shareholders, the major differences are described below and their effect on CP Limited's operating income and net income is summarized on the following page. The effect on the statement of changes in consolidated financial position is not significant, except that dividends are treated as a financing activity in the statement of changes in consolidated financial position under United States GAAP. The significant effect on the consolidated balance sheet, had it been prepared under United States GAAP, would be a decrease of net properties, other assets, deferred income taxes and retained income by approximately \$9.5 million, \$153.7 million, \$189.7 million and \$72.0 million, respectively, and an increase of deferred liabilities of \$84.3 million.

The full cost methods of accounting for conventional oil and gas operations promulgated under Canadian and United States GAAP differ in the following respect. Ceiling test calculations are performed by comparing the net book value of conventional petroleum and natural gas properties with the future net revenues expected to be generated from proven developed reserves, discounted at ten percent for United States reporting purposes, and undiscounted for Canadian reporting. Any excess of net book value over future net revenues is recognized as additional depletion expense in both reporting jurisdictions.

The sinking fund method of providing depreciation followed by the Hotels business segment in accordance with Canadian GAAP is not an acceptable method under United States GAAP, which requires that the straight-line method be used.

CP Limited follows the Canadian method of accounting for income taxes, described as the deferral method, focusing on differences arising between financial statement income and taxable income. The method followed under United States GAAP, described as the liability method, focuses on differences between the book and tax value of assets and liabilities. In Canada, the income taxes are recorded using tax rates and regulations applicable in the year and are not changed in future years even though tax rates and regulations may change. In the United States, the tax liability is calculated using enacted future tax rates and regulations and is adjusted in future years if those tax rates and regulations are changed.

CP Limited follows the Canadian practice of deferring and amortizing unrealized exchange gains and losses related to long term foreign currency assets and liabilities, whereas under United States GAAP such gains and losses are included in income immediately.

The principal difference between Canadian and United States GAAP in accounting for pension costs is in the choice of discount rate used for computing the benefit obligation and the service and interest cost components of net periodic pension expense. Under Canadian GAAP, the discount rate used represents management's best estimate of the long term rate of return on pension fund assets, whereas under United States GAAP the discount rate reflects the rate at which pension benefits can be effectively settled at the date of the financial statements. The impact of this difference on CP Limited's pension expense is included in the following table. The impact of the difference on the funded status of CP Limited's plans is not material.

CP Limited follows the Canadian practice of expensing costs related to post retirement health care and life insurance benefits when they are paid, whereas under the United States accounting standard these costs, based on the terms of the plan, are recognized on an accrual basis during the years the plan participants provide the services.

As a result of previous differences between Canadian and United States GAAP, the carrying value for assets disposed of as discontinued differed and consequently gains and losses on disposal differ.

CANADIAN AND UNITED STATES ACCOUNTING PRINCIPLES (CONT'D)

For the Year ended December 31 (in millions, except amounts per share)	1996	1995	1994
Operating income (loss)			
Canadian GAAP	$ **1,394.8**	$ (104.0)	$ 970.2
United States GAAP	**1,450.1**	(148.8)	933.8
Income (loss) from continuing operations			
Canadian GAAP	**834.1**	(265.4)	464.9
United States GAAP	**918.1**	(286.2)	428.2
Net income (loss)			
Canadian GAAP	**829.1**	(823.5)	393.1
United States GAAP	**1,071.0**	(716.3)	289.0
Earnings (loss) per Ordinary Share			
Income (loss) from continuing operations			
Canadian GAAP	**2.42**	(0.78)	1.38
United States GAAP	**2.67**	(0.84)	1.27
Net income (loss)			
Canadian GAAP	**2.41**	(2.41)	1.16
United States GAAP	**3.11**	(2.10)	0.85

The following is a reconciliation of net income (loss) under Canadian GAAP to net income (loss) under United States GAAP:

	1996	1995	1994
Net income (loss) – Canadian GAAP	$ **829.1**	$ (823.5)	$ 393.1
Increased or (decreased) by:			
Oil and gas	**12.1**	8.3	11.5
Hotels	**(3.2)**	(3.6)	(3.2)
Deferred income taxes	**13.2**	(18.1)	42.4
Foreign exchange	**42.2**	22.9	(57.8)
Pension costs	**28.1**	(27.1)	(25.8)
Post retirement benefits	**(5.3)**	(4.9)	(3.7)
Other	**(3.2)**	1.7	–
Discontinued operations	**158.0**	128.0	(67.5)
Net income (loss) – United States GAAP	$ **1,071.0**	$ (716.3)	$ 289.0

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)
STATEMENT OF CONSOLIDATED INCOME

(in millions, except amounts per share)

	1996			
For the three months ended	March 31	June 30	Sept. 30	Dec. 31
Revenues	$ 2,099.6	$ 2,047.0	$ 2,062.4	$ 2,475.0
Costs and Expenses				
Cost of goods sold and services	1,360.0	1,224.8	1,235.8	1,519.3
Selling, general and administrative	252.5	253.9	246.6	255.2
Depreciation, depletion and amortization	213.7	251.7	213.4	262.3
	1,826.2	1,730.4	1,695.8	2,036.8
Operating income	273.4	316.6	366.6	438.2
Interest expense, net	58.1	64.8	59.3	53.1
Non-operating items	21.5	(12.6)	(53.5)	71.6
Income before income taxes, minority interest and equity in income	193.8	264.4	360.8	313.5
Income tax expense	42.3	86.5	103.9	53.7
Minority interest share of income of subsidiaries	11.4	8.8	9.6	16.3
Income before equity in income	140.1	169.1	247.3	243.5
Equity in income of Laidlaw Inc.	5.2	12.1	3.3	13.5
Income from continuing operations	145.3	181.2	250.6	257.0
Discontinued operations	(7.5)	(1.6)	4.1	–
Net income	$ 137.8	$ 179.6	$ 254.7	$ 257.0
Earnings per Common Share				
Income from continuing operations	$ 0.42	$ 0.53	$ 0.73	$ 0.74
Net income	$ 0.41	$ 0.53	$ 0.73	$ 0.74

Operating income for the three months ended September 30, 1996 includes a gain on the sale of an equity investment in a rail industry insurance association of $16.7 million.

Other income for the three months ended September 30, 1996 includes a gain of $120.4 million on repayment of the Perpetual 4% Consolidated Debenture Stock and a charge of $30 million to reflect a reduction in the discount rate on previous restructuring accruals.

Income tax expense for the three months ended September 30, 1996 includes a $25 million general tax provision.

Other income for the three months ended June 30, 1996 includes a gain of $31 million on the sale of shares of Doubletree Corporation.

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)
STATEMENT OF CONSOLIDATED INCOME
(in millions, except amounts per share)

For the three months ended	1995 March 31	1995 June 30	1995 Sept. 30	1995 Dec. 31
Revenues	$ 1,620.5	$ 1,922.3	$ 1,920.2	$ 2,087.5
Costs and Expenses				
Cost of goods sold and services	988.4	1,178.4	1,165.1	1,312.1
Selling, general and administrative	248.9	248.9	248.8	1,400.3
Depreciation, depletion and amortization	191.8	208.2	213.2	250.4
	1,429.1	1,635.5	1,627.1	2,962.8
Operating income (loss)	191.4	286.8	293.1	(875.3)
Interest expense, net	56.7	52.7	57.8	57.0
Non-operating items	23.2	(30.9)	26.4	112.0
Income (loss) before income taxes, minority interest and equity in income	111.5	265.0	208.9	(1,044.3)
Income tax expense (recovery)	26.0	94.7	74.5	(391.1)
Minority interest share of income of subsidiaries	10.2	8.6	6.6	4.6
Income (loss) before equity in income	75.3	161.7	127.8	(657.8)
Equity in income of Laidlaw Inc.	4.8	10.6	2.1	10.1
Income (loss) from continuing operations	80.1	172.3	129.9	(647.7)
Discontinued operations	(52.7)	(47.8)	(115.6)	(342.0)
Net income (loss)	$ 27.4	$ 124.5	$ 14.3	$ (989.7)
Earnings (loss) per Common Share				
Income (loss) from continuing operations	$ 0.23	$ 0.51	$ 0.38	$ (1.90)
Net income (loss)	$ 0.08	$ 0.36	$ 0.05	$ (2.90)

Operating loss for the three months ended December 31, 1995 includes write-downs and restructuring costs of $1,143 million described in Note 2.

Other income for the three months ended June 30, 1995 includes a gain of $60.7 million on the sale of approximately four million Doubletree Corporation shares.

Other expenses for the three months ended December 31, 1995 include corporate restructuring charges of $90 million.

(Dollars in millions, except amounts per share)	1996	1995	1994	1993
Revenues				
Continuing operations	$ 8,684.0	$ 7,550.5	$ 6,592.9	$ 5,834.0
Operating income (loss) from:				
Transportation	$ 641.7	$ (683.8)	$ 391.7	$ 328.2
Energy	637.3	482.9	505.8	397.9
Hotels	115.8	96.9	72.7	57.1
	$ 1,394.8	$ (104.0)	$ 970.2	$ 783.2
Income (loss) from continuing operations	$ 834.1	$ (265.4)	$ 464.9	$ 249.1
Net income (loss)	$ 829.1	$ (823.5)	$ 393.1	$ (190.6)
United States GAAP				
Income (loss) from continuing operations	$ 918.1	$ (286.2)	$ 428.2	$ 318.1
Net income (loss)	$ 1,071.0	$ (716.3)	$ 289.0	$ (117.8)
Total Assets	$ 15,215.9	$ 16,037.9	$ 16,912.3	$ 17,134.3
Total capitalization				
Total long term debt	$ 3,384.6	$ 4,909.8	$ 4,883.8	$ 6,063.3
Perpetual 4% Consolidated Debenture Stock	57.2	186.6	194.5	178.1
Minority shareholders' interest in subsidiary companies	321.6	311.1	291.1	265.6
Shareholders' equity	6,404.6	5,846.7	6,814.3	6,030.7
	$ 10,168.0	$ 11,254.2	$ 12,183.7	$ 12,537.7
Per Common Share:				
Income (loss) from continuing operations				
Canadian GAAP	$ 2.42	$ (0.78)	$ 1.38	$ 0.78
United States GAAP	$ 2.67	$ (0.84)	$ 1.27	$ 1.00
Net income (loss)				
Canadian GAAP	$ 2.41	$ (2.41)	$ 1.16	$ (0.60)
United States GAAP	$ 3.11	$ (2.10)	$ 0.85	$ (0.37)
Dividends	$ 0.48	$ 0.36	$ 0.32	$ 0.32
Number of Common Shares (in millions)				
Year-end	346.9	342.3	341.8	319.4
Average	344.4	342.1	337.5	319.2
Rate of return on average shareholders' equity	13.5%	(13.0)%	6.1%	(3.1)%
Debt:equity ratio	34:66	45:55	42:58	50:50

1992	1991	1990	1989	1988	1987
$ 5,124.2	$ 5,224.4	$ 5,252.6	$ 4,876.8	$ 5,055.9	$ 5,074.3
$ (303.8)	$ 38.7	$ 404.8	$ 321.5	$ 559.6	$ 605.6
321.7	184.5	424.0	297.6	234.4	323.5
50.0	24.5	58.2	53.9	53.0	25.3
$ 67.9	$ 247.7	$ 887.0	$ 673.0	$ 847.0	$ 954.4
$ (120.9)	$ (390.4)	$ 435.2	$ 319.0	$ 409.3	$ 374.1
$ (478.3)	$ (913.8)	$ 355.3	$ 745.2	$ 820.1	$ 826.3
$ (242.7)	$ (482.9)	$ 413.0	$ 339.5	$ 467.9	$ 444.8
$ (693.9)	$ (1,037.4)	$ 320.3	$ 768.3	$ 887.6	$ 923.5
$ 20,275.2	$ 20,638.5	$ 20,274.9	$ 19,099.7	$ 17,702.2	$ 18,052.1
$ 7,715.9	$ 7,215.3	$ 4,564.4	$ 4,256.4	$ 3,836.0	$ 4,469.8
172.4	176.4	180.1	162.9	178.1	197.7
815.2	867.0	1,043.3	1,238.8	1,073.4	1,139.0
6,313.4	6,741.0	7,854.5	7,823.6	7,330.2	6,460.1
$ 15,016.9	$ 14,999.7	$ 13,642.3	$ 13,481.7	$ 12,417.7	$ 12,266.6
$ (0.38)	$ (1.23)	$ 1.37	$ 1.01	$ 1.32	$ 1.24
$ (0.76)	$ (1.52)	$ 1.30	$ 1.07	$ 1.48	$ 1.47
$ (1.50)	$ (2.87)	$ 1.11	$ 2.35	$ 2.65	$ 2.75
$ (2.18)	$ (3.26)	$ 1.00	$ 2.42	$ 2.87	$ 3.07
$ 0.32	$ 0.63	$ 0.92	$ 0.84	$ 0.68	$ 0.54
319.1	318.7	318.2	318.2	316.9	302.8
318.8	318.5	318.5	317.3	309.1	300.5
(7.3)%	(12.5)%	4.5%	9.8%	11.9%	13.5%
53:47	49:51	35:65	33:67	32:68	38:62

PROPERTIES AT COST, LESS DEPRECIATION
At December 31, 1996

(in millions)	CP Railway	CP Ships	PanCanadian Petroleum	Fording Inc.	CP Hotels & Resorts	Other	Total	Percent of Total
CANADA								
Atlantic Provinces and Offshore	$ 0.4	$ –	$ 93.5	$ –	$ 30.5	$ –	$ 124.4	1
Quebec	36.7	33.0	2.2	–	169.5	10.2	251.6	2
Ontario	713.2	–	52.1	–	175.7	141.0	1,082.0	10
Manitoba	255.7	–	0.4	–	–	–	256.1	2
Saskatchewan	363.2	–	263.5	1.1	–	3.2	631.0	6
Alberta	386.6	–	3,218.5	138.0	325.2	11.8	4,080.1	37
British Columbia	1,033.1	–	115.0	442.8	225.8	39.5	1,856.2	17
N.W.T., Yukon	–	–	19.4	–	–	–	19.4	–
Transportation Equipment	973.6	–	–	–	–	–	973.6	9
	3,762.5	33.0	3,764.6	581.9	926.7	205.7	9,274.4	84%
OUTSIDE CANADA								
United States	1,423.2	–	17.4	60.6	–	21.1	1,522.3	14
Other	–	32.5	46.0	54.3	–	5.5	138.3	1
Ocean Ships	–	136.9	–	–	–	–	136.9	1
	1,423.2	169.4	63.4	114.9	–	26.6	1,797.5	16%
	$ 5,185.7	$ 202.4	$ 3,828.0	$ 696.8	$ 926.7	$ 232.3	$11,071.9	100%

COMMON SHARE MARKET PRICES

Toronto Stock Exchange

	1996 High	1996 Low	1995 High	1995 Low
	(Canadian Dollars)			
First Quarter	**28.13**	**24.50**	21.38	18.88
Second Quarter	**30.35**	**25.70**	24.75	20.13
Third Quarter	**32.25**	**26.75**	25.00	21.38
Fourth Quarter	**38.00**	**30.50**	25.50	20.25
Year	**38.00**	**24.50**	25.50	18.88

New York Stock Exchange

	1996 High	1996 Low	1995 High	1995 Low
	(U.S. Dollars)			
First Quarter	**20.75**	**18.00**	15.38	13.38
Second Quarter	**22.25**	**19.13**	18.00	14.75
Third Quarter	**23.50**	**19.63**	18.38	16.00
Fourth Quarter	**28.13**	**22.63**	18.88	14.88
Year	**28.13**	**18.00**	18.88	13.38

SHAREHOLDER ADMINISTRATION

The Trust Company of Bank of Montreal, with transfer facilities in Montreal, Toronto, Calgary, Vancouver and in London, England, through its agent, The Royal Bank of Scotland plc, serves as transfer agent and registrar for the Common shares. The Bank of Montreal Trust Company serves as transfer agent and registrar for the Common shares in New York.

For information concerning dividends, or for change in share registration or address, please call the transfer agent and registrar at 1-800-332-0095 or (514) 877-2584, or write to:

The Trust Company of Bank of Montreal
105 Saint-Jacques Street, 3rd Floor
Montreal, Quebec H2Y 1L6

MARKET FOR SECURITIES

The Common shares of Canadian Pacific Limited are listed on the Montreal, Toronto, Alberta, Vancouver and New York stock exchanges.

TRADING SYMBOL

Toronto and New York
Stock Exchanges – CP

DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

Eligible holders of Canadian Pacific Limited Common shares may acquire new Common shares through reinvesting cash dividends and/or investing optional cash payments, without paying brokerage commissions or administrative charges. An information circular providing details of the Plan may be obtained from the Corporation's transfer agent or from Shareholder Services.

DUPLICATE ANNUAL REPORTS

While every effort is made to avoid duplication, some Canadian Pacific Limited registered shareholders may receive multiple copies of shareholder information mailings such as this Annual Report. Registered shareholders who wish to consolidate any duplicate accounts which are registered in the same name are requested to write to the Corporation's transfer agent.

INVESTOR RELATIONS

Institutional investors, brokers, security analysts and others desiring copies of Canadian Pacific's Financial and Operating Information booklet or other financial information should contact:
Ms. S. M. McIntosh
Vice-President
Corporate Communications and Investor Relations
Canadian Pacific Limited
1800 Bankers Hall East
855 – 2nd Street S.W.
Calgary, Alberta T2P 4Z5

SHAREHOLDER SERVICES

Shareholders having inquiries or wishing to obtain copies of the Corporation's Annual Information Form should write to:
Shareholder Services
Office of the Corporate Secretary
Canadian Pacific Limited
P.O. Box 6042, Station Centre-ville
Montreal, Quebec H3C 3E4

EFFECTIVE CORPORATE GOVERNANCE CALLS FOR THE ESTABLISHMENT OF PROCESSES AND STRUCTURES TO ENSURE THE SOUND DIRECTION AND MANAGEMENT OF THE CORPORATION'S BUSINESS WITH A VIEW TO ENHANCING SHAREHOLDER VALUE. THE BOARD OF DIRECTORS BELIEVES THAT THE CORPORATE GOVERNANCE PRACTICES SUMMARIZED BELOW ARE CONSISTENT WITH THESE OBJECTIVES.

THE BOARD consists of sixteen directors, fourteen of whom are unrelated. The related directors are the Chairman, President and Chief Executive Officer and a director who is counsel to a law firm that provides legal services to Canadian Pacific. The number of directors constituting the Board has been reduced over the past eleven years from twenty-eight members to its current sixteen. The Board believes that this number is appropriate and allows the Board to deliberate effectively.

Although D.P. O'Brien is both Chairman of the Board and Chief Executive Officer of the Corporation, the fact that he occupies both offices does not in the opinion of the Board impair its ability to act independently of management. The opinion is based on the proportion of unrelated to related directors and the fact that an unrelated director, the Chairman of the Corporate Governance and Nominating Committee, has been designated lead director.

The Board assumes responsibility for the stewardship of the Corporation and, in discharging that responsibility, it annually reviews and adopts a long-term strategic plan, an annual financial budget, as well as the consolidated financial statements. It also reviews and where appropriate approves major acquisitions and dispositions. The Board has established seven committees to assist it in carrying out its responsibilities.

THE CORPORATE GOVERNANCE AND NOMINATING COMMITTEE is composed entirely of unrelated directors and is charged with responsibility for all matters relating to corporate governance. These responsibilities include recommending candidates for nomination, appointment, election and re-election to the Board and its Committees, assessing Board performance, and determining the most appropriate orientation and education program for new Board members. Given that the offices of Chairman and Chief Executive Officer are held by the same person, the Board meets from time to time without management being present. Directors may, in circumstances considered appropriate by this Committee, engage the services of outside advisers at the Corporation's expense.

THE COMPENSATION COMMITTEE is composed entirely of unrelated directors. It is responsible for recommending to the Board the fees to be paid to directors and the compensation to be paid to management. It also assesses the performance of the Chief Executive Officer and determines his compensation based on the attainment of objectives set by the Board that are consistent with the Corporation's strategic plan and that are reflected in the performance criteria of the Corporation's short and long term incentive plans.

THE AUDIT COMMITTEE also consists entirely of unrelated directors. It is responsible for overseeing the Corporation's internal controls and management information systems, as well as identifying the principal risks of the Corporation's businesses and the systems in place to manage these risks. The committee also reviews with management and with the internal and external auditors the Corporation's financial reporting procedures in connection with the annual audit and the preparation of the financial statements.

THE MANAGEMENT RESOURCES COMMITTEE, composed entirely of unrelated directors, is responsible for making recommendations to the Board on management succession planning within the Corporation and its major subsidiaries.

THE EXECUTIVE, ENVIRONMENTAL AND SAFETY, AND PENSION TRUST FUND COMMITTEES are all composed of a majority of unrelated directors. The Executive Committee, between meetings of the Board, exercises the duties and responsibilities of the Board, except those responsibilities which by law only a board of directors may exercise. The Environmental and Safety Committee is responsible for making recommendations to the Board on environmental and safety issues. The Pension Trust Fund Committee oversees the operation and administration of the Corporation's pension plans and the investment policies and management of the pension trust funds.

The Board of Directors also appreciates the importance of maintaining effective communication with its shareholders. To this end, it reviews the Corporation's Annual Report, Management's Discussion and Analysis, Management Proxy Circular, Annual Information Form, quarterly financial statements, and press releases on major developments before they are distributed. The Corporation also maintains shareholder and investor relations services to respond to all shareholder inquiries.

BOARD OF DIRECTORS

[4,6] **Lloyd I. Barber, C.C., Ph.D.**
President Emeritus
University of Regina
Regina

[1,3,5,7] **Michel F. Bélanger, C.C.**
Chairman of the Board
Avenor Inc.
Montreal

[2,4] **Ms. Dian Cohen, C.M., LL.D.**
President
Dian Cohen Productions Limited
Ayers Cliff, QC

[4] **M. James Fielding**
Chairman of the Board
Alexander Centre Industries Limited
Sudbury

[4] **Ardagh S. Kingsmill, Q.C.**
Counsel, Law Firm of
McCarthy Tétrault
Toronto

[4] **The Hon. Peter Lougheed, P.C., C.C., Q.C.**
Partner, Law Firm of
Bennett Jones Verchere
Calgary

[1,2,6] **Angus A. MacNaughton**
President
Genstar Investment Corporation
Foster City, Ca.

[1,3,5,6,7] **John D. McNeil**
Chairman and Chief Executive Officer
Sun Life Assurance Company of Canada
Toronto

[2,3,5,6,7] **Stanley A. Milner, A.O.E., LL.D.**
President and Chief Executive Officer
Chieftain International Inc.
Edmonton

[1,2,3,5,7] **William D. Mulholland**
Farmer, former Chairman of the Board and Chief Executive Officer
Bank of Montreal
Toronto

[4,5,7] **David P. O'Brien**
Chairman, President and Chief Executive Officer
Canadian Pacific Limited
Calgary

[3,5,7] **James A. Pattison, O.C.**
Chairman, President and Chief Executive Officer
Jim Pattison Group Inc.
Vancouver

[2] **Ronald D. Southern, C.M., C.B.E., LL.D.**
Chairman and Chief Executive Officer
ATCO Ltd. and Canadian Utilities Limited
Calgary

William W. Stinson
Retired Chairman and Chief Executive Officer
Canadian Pacific Limited
Calgary

[3,5,6,7] **Allan R. Taylor, O.C.**
Retired Chairman and Chief Executive Officer
The Royal Bank of Canada
Toronto

The Rt. Hon. The Viscount Weir
Chairman
The Weir Group PLC
Glasgow, Scotland

[1] Member of Audit Committee
[2] Member of Compensation Committee
[3] Member of Corporate Governance and Nominating Committee
[4] Member of Environmental and Safety Committee
[5] Member of Executive Committee
[6] Member of Management Resources Committee
[7] Member of Pension Trust Fund Committee

OFFICERS

D.P. O'Brien
Chairman, President and Chief Executive Officer

W.R. Fatt
Executive Vice-President and Chief Financial Officer

R.K. Gamey
Executive Vice-President

E. J. Dato
Vice-President Corporate

D.W. Flicker
Vice-President Law and Corporate Secretary

Ms. S. M. McIntosh
Vice-President Corporate Communications and Investor Relations

M.J. Patava
Vice-President and Treasurer

N.E. Wale
Vice-President Planning and Analysis

A COPY OF THE 1996 ANNUAL REPORT OF EACH OF THE FOLLOWING BUSINESSES CAN BE OBTAINED BY WRITING TO:

Secretary
CANADIAN PACIFIC RAILWAY COMPANY
Suite 500
Gulf Canada Square
401 – 9th Avenue S.W.
Calgary, Alberta T2P 4Z4

Secretary
PANCANADIAN PETROLEUM LIMITED
PanCanadian Plaza
P.O. Box 2850
Calgary, Alberta T2P 2S5

Secretary
FORDING INC.
205 – 9th Avenue S.E.
Calgary, Alberta
T2G 0R4

Secretary
CANADIAN PACIFIC HOTELS & RESORTS INC.
One University Avenue
Suite 1400
Toronto, Ontario M5J 2P1

Secretary
LAIDLAW INC.
3221 North Service Road
P.O. Box 5028
Burlington, Ontario
L7R 3Y8

SI VOUS DÉSIREZ VOUS PROCURER LA VERSION FRANÇAISE DU PRÉSENT RAPPORT, veuillez vous adresser au vice-président, Contentieux et secrétaire général, Canadien Pacifique Limitée, C.P. 6042, succursale Centre-ville, Montréal (Québec) Canada H3C 3E4

Canadian Pacific Charitable Foundation

MAKING A DIFFERENCE THROUGH COMMUNITY SUPPORT

Charitable donations by the Canadian Pacific Railway Company can be traced back to 1883. A donations program was established in 1921 and since then, Canadian Pacific has been providing financial support to charitable organizations that enhance the common good, particularly within communities where one or more of the Canadian Pacific companies have a significant presence.

In 1994, this tradition was further enhanced through the establishment of the Canadian Pacific Charitable Foundation. The Foundation represents each of the following companies through its national philanthropic program:

Canadian Pacific Limited
Canadian Pacific Railway
Fording Coal
Canada Maritime
Canadian Pacific Hotels
Cast North America

The Foundation supports federally registered Canadian charitable organizations within the following categories:

Education
Health and Hospitals
Social Services
Culture and the Arts
Youth Development
Community Relations

Canadian Pacific is proud to be a corporate sponsor of the IMAGINE Campaign, established by the Canadian Centre for Philanthropy. IMAGINE'S mandate is to encourage personal and corporate philanthropy through donating at least 1% of pre-tax profit to charitable organizations.

To obtain more information about the Canadian Pacific Charitable Foundation, write to:

Canadian Pacific Charitable Foundation
1800 Bankers Hall East
855 – 2nd Street S.W.
Calgary, Alberta
T2P 4Z5

Imagine
A Caring Company

DESIGN: GOTTSCHALK+ASH INTERNATIONAL

Canadian Pacific Limited
910 Peel Street
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